

A top-down photograph of several hands of different ages and skin tones resting on a sandy surface. The hands are arranged in a loose circle, with some fingers spread and others curled. The sand is light-colored and textured. The image is used as a background for the report cover.

2010

ANNUAL CORPORATE
Responsibility and
Sustainability Report
Telefónica Brazil

Telefónica

Major Awards and Recognitions in 2010

- Vivo was among the 150 Best Companies to Work in the country, by Guia Você S.A. Exame (published by Editora Abril).
- Telefónica and Vivo were among the Best Companies to Work in IT and Telecom, by consulting company Great Place to Work Institute.
- Vivo was recognized as the Largest and Best Company in the Telecommunications Industry in the Country by the newspaper Valor Econômico.
- Telefónica was selected as the best company in the Telecommunications Industry by Exame Especial Melhores e Maiores (published by Editora Abril).
- Telefónica was among The 100 Best Companies in Corporate Civil Responsibility by the magazine Gestão RH Especial.
- Vivo was recognized by consulting company Great Place to Work Institute as one of the 100 Best Companies to Work.
- Telefónica was once again featured in the Best of Dinheiro Magazine awards in the Management category for telecommunications. Sponsored by IstoÉ Dinheiro magazine (published by Editora Três), the award recognizes companies that stood out in 2009 not only financially, but also for human resources management, innovation, quality, social and environmental management and corporate governance.
- Telefónica was awarded for the third consecutive year the Época de Mudanças Climáticas (Times of Climate Changes) award sponsored by Época magazine (published by Editora Globo).
- Telefónica was awarded as one of the 20 most innovative companies in Brazil with the Innovation/Best Innovator 2010 award by Época Negócios magazine (Editora Globo) in partnership with consulting company A.T. Kearney.
- Telefónica Foundation won in the social category of the 9th edition of the Jovem Brasileiro (Young Brazilian) Award, after being nominated by a special committee of reporters, columnists, critics and a survey of young people through a poll in the event's official website (www.premiojovem.com.br) with over 50 thousand votes.

Corporate Responsibility and Sustainability Report for Brazil and the World

Through local Corporate Responsibility Reports, Telefónica presents and quantifies its social, economic and environmental activities in the countries where it operates, describing the challenges and initiatives that contribute to the development of communities.

Brazil



1998-2004
GRI
AA1000AS



2005
GRI
AA1000AS



2006
GRI
AA1000AS



2007
GRI (G3)
AA1000AS



2008
GRI (G3)
AA1000AS



2009
GRI (G3)
AA1000AS



2010
GRI (G3)
AA1000AS



* Since 2009, these countries have published a separate CR Report. Previously the CR Report was drafted jointly for Central America.

The 10 principles of the Global Pact and Telefónica in the World



Principle 1

- We fully support the framework approved by the United Nations Human Rights Council in 2008 for better management of the challenges faced by businesses and Human Rights.
- Regarding health and safety, an International Competence Center for Health and Safety (CCISS) for the Group was designated to assist in the prevention of work-related risks in our different regions of operation and in the implementation of the "Health, Safety and Well-Being" project.
- We foment the proper use of information and communication technologies by children and adolescents.
- We achieved an appropriate and uniform level for the protection of personal data in all our operations, independently of the country where we are present.



Principle 3

- At Telefónica we are committed to ensuring that all employees – direct and indirect – are able to form or join a union of their choice without threat of reprisals or intimidation, in accordance to the local legislation of each country where we operate, and we support the right to collective negotiation.
- Regarding freedom of association, at Telefónica we have the benchmark of our Business Principles, the Social Protocol for International Agreements and its Code of Conduct, which is in effect between the Union Network International (UNI) and Telefónica. The portion of Telefónica employees working under labor conditions that are regulated by collective agreements increased by more than two percentage points in 2010, to 75% of the total number of employees.
- Through 200 hundred combined forums, Telefónica's workers are represented at the highest level in the company.
- Our workers are promptly informed of agreements or organizational changes through our internal channels. There are also report channels available to all employees online.



Principle 2

- At Telefónica we ensure that our companies are not accomplices in possible violations, either in a direct manner involving our professionals, clients and communities, or in an indirect manner through our suppliers.
- We work to simplify and clarify our products, evolve in our multichannel strategy - especially in using the opportunities social networks provide - and transfer these advancements to customer satisfaction in each country.
- We collaborate to solve social problems in the communities where we operate, providing training and technology. Of special note is Telefónica's economic, material and technical involvement in the emergency and catastrophic situations that took place in 2010, such as the floods in the city of São Luís do Paraitinga in São Paulo (read more on pg. 27) with the objective of contributing to a quick recovery of the various regions and seeking to restore to the communities their right to conditions compatible with a dignified life.
- We endeavor to train our suppliers so they better understand our strategy in responsible management of the supply chain and learn to strengthen their Corporate Responsibility culture.



Principle 4

- At Telefónica we ensure that there is no forced labor in any of our companies or in any of the countries where we operate. Such efforts extend to our suppliers.
- We potentialize new methods of work that allow for better flexibility for our workforce.
- All our companies subscribe to the Labor Risks Prevention Service and have obtained the Audit Certification of Labor Risk Prevention.
- The fixed compensation that Telefónica pays its workers is, in all cases, above the local minimum wage. In many cases this fixed remuneration is complemented with a social benefits package appropriate to the local market.
- We cooperate with our suppliers to prevent situations of slavery or forced labor in our value chain.



Principle 5

- At Telefónica we take action in three fronts to make a significant contribution to the eradication of child labor in the countries where the company operates: through our own internal regulations, responsible management of the supply chain and the social action programs Pro-menino and EducaRede, by the Telefónica Foundation.
- During 2010, Pro-Menino worked with 118 active NGOs and 5,860 education centers; 432 classes were conducted by Telefónica Foundation (AFT); 211,349 minors were benefited under integral protection and another 223,988 by the AFT.
- The Telefónica Foundation's EducaRede global portal had 52.6 million visits and over 233 million pages were browsed. Over 142,000 people were trained in about 2,100 courses organized, with 1.2 million hours of training.



Principle 6

- Our Global Diversity project aims at internally transforming this principle into reality, especially through the inclusion of the perspective of diversity in the employee lifecycle.
- Through our awareness actions, we make available the e-learning training platform, which includes the "Cultural Diversity Management" course that has the main objective of teaching employees to address a multi-cultural reality and adapt to it in their work location.
- With the development of internal policies, we ensure that equality is addressed in all work policies.



Principle 7

- We contribute departmentally and globally to adequately address climate changes through our products and services.
- At Telefónica our Global Environmental Management System establishes the operating guidelines for preventive and effective environmental management. We firmly believe that we can reduce global greenhouse effect gases (GHG) through efficient internal energy actions, and especially through our products and services at a global level.



Principle 8

- We work with local teams that are trained and committed to the environmental objectives of climate change and energy efficiency. We manage the environmental responsibility of all business lines in an efficient manner.
- We place great emphasis on waste management in our operations, as well as in the control of the visual and/or acoustic impact of network installation. The responsibility for GHG and energy reduction is realized through global projects that aim at fulfilling our reduction objectives by 2015.



Principle 9

- We identify and develop products and services that increase energy efficiency and reduce CO2 emissions for our clients.
- Through our products and services we can contribute to environmental protection and, above all, promote our clients' energy efficiency, reducing global GHG emissions. This value proposition by Telefónica is legitimate and focuses on all our business segments in Europe and Latin America.



Principle 10

- At Telefónica we are aware of the high cost of corruption. In the mid and long range, our companies will rely on a strong anti-corruption strategy.
- We have two committees under the Administration Council (the Human Resources Auditing and Control Committee and the Telefónica S.A. Reputation and Corporate Responsibility Committee) as well as specific organizational units.
- Our Operating Principles address issues of conflict of interests, corruption, rejection of presents and bribes and the principle of political neutrality. We also rely on standards that introduce principles of fraud control in processes with greater potential risks.

Telefónica Brazil 2010 Initiatives and the Principles of the Global Pact

Human Rights

1. The companies must support and respect internationally recognized human rights protection.

Telefónica reinforced its commitment to promoting human rights by signing the declaration of "Corporate Social Responsibility and Human Rights" in 2008. We understand that we are responsible for managing our business with respect for human rights and that we must therefore be concerned with the work conditions we provide our workers, with extending ethical principles to our suppliers, with the manner which we influence our industry and the way we relate to our clients and society. *Read more about the Corporate Responsibility Strategy (pgs 9 to 11).*

2. The companies must ensure non-participation in the violation of such rights.

We seek to ensure the fulfillment of Human Rights not only in our own operations, but also in those of our partner companies. To that end we are continuously evaluating our suppliers' performance in the matter, and since 2009 we have trained partner companies in sustainability. *Read more in Integrity (pg. 13) and Building Sustainable Relationships with our Suppliers (pg. 38).*

Work

3. The companies must support freedom of association and the effective recognition of the right to collective negotiations.

We seek to ensure that all of our employees – direct and indirect – are able to participate in the union that represents their work category. These unions are routinely called to discuss all of the situations that affect our professionals. *Read more in Building Sustainable Relationships with our Professionals (pgs. 36 and 37).*

4. The companies must support the elimination of all types of forced or mandatory labor.

Since 2008, Telefónica in Latin America has developed the Allied program, with the objective of ensuring compliance to social, environmental and labor standards and improving selection, training, compensation and satisfaction of partner company employees. In Brazil, Telefónica SP conducts work document inspections and in-person inspections of work conditions of partner companies. *Read more in Building Sustainable Relationships with our Suppliers (pg. 38).*

5. The companies must support the eradication of child labor.

One of the main lines of work of the Telefónica Foundation in Latin America is fighting child labor, through the Pro-Menino program. In Brazil the Telefónica foundation has, since 2007, supported projects to fight child labor in 17 municipalities and in 2010 it benefited over 9.3 thousand boys and girls through partnerships with Municipal Councils of Child and Adolescent Rights in the state of São Paulo. *Read more in Building Sustainable Relationships with our Communities (pgs. 40 to 42).*

6. The companies must eradicate discrimination in the work place.

In our Business Principles we commit to promoting equal opportunities and not allowing any type of discrimination. In December 2010, 30 women held management positions in the company, a representation of 17.3% of the total governing body. The number of people with disabilities increased by almost 29% when comparing 2010 to the previous year. *Read more in Diversity (pg. 18).*

Environment

7. The companies must support a preventive approach to environmental challenges.

8. The companies must develop initiatives and promote greater environmental responsibility.

9. The companies must motivate the development and dissemination of environmentally friendly technologies.

Telefónica is aware of its responsibility for the environment. Information and Communication Technology (ICT) plays a fundamental role in fighting climate changes and we intend to position ourselves as a pillar in the solution of this global problem. The subject was even the object of the first Global Workshop in Energy and Climate Change, held in Madrid in 2010 and dedicated to sharing best practices on energy conservation and efficiency. The Group made a public commitment to reduce energy consumption in its operations by 15%, worldwide, by 2015, assessed in kilowatt-hour per equivalent terminal.

The Environmental Management System implemented globally by Telefónica, aligned with the ISO 14001 international standard which establishes minimum requirements for all operations until 2012, has advanced in Brazil with the definition of environmental risk management processes. Part of these processes has been implemented at Vivo. *Read more in Environmental Management and Climate Changes (pgs. 20 to 25).*

Against Corruption

10. The companies must always fight corruption in all its forms, including extortion and bribery.

Telefónica is a signor of the Merida (Mexico 2003) UN Convention Against Corruption and supports the definition of corruption established by International Transparency. Moreover, we have developed and enhanced controls of all types of payments made to our company, in order to minimize the possibility of this sort of event occurring. In 2010, for example, we implemented a tax document receipt process One Window (Janela Única) and centralized control of all purchases made outside the purchasing department. *Read more in Integrity (pg. 13).*

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Telefónica



INDEX

	Letter from the CEOs	04
	Telefónica in Brazil and the world	06
	Driver of progress	07
1	Sustainability strategy	08
2	Risk management	12
3	Management of opportunities	22
4	Stakeholder engagement	30
5	Building sustainable relationships	32
6	Balance	44

Letter from the global CEO

Building trust has been the basis for our transformation



It is a pleasure for me to present you with Telefónica's Corporate Responsibility and Sustainability Report, a document that introduces a significant change to our strategy on this topic and our achievements in 2010: for the first time in nine years we have added the concept of Sustainability to the name of the report.

In 2010, we had our best year ever in terms of corporate responsibility. For starters, we led the Dow Jones Sustainability Index (DJSI) for the second consecutive year - the most important socially responsible investment index in the telecommunications sector, including landline and mobile operations. The prestigious magazine Fortune also recognized us as the "Most admired company" in the telecommunications sector for, among other reasons, leading the corporate responsibility ranking in the sector. In addition, Telefónica has led the Carbon Disclosure Project (CDP) in our sector; it is worth recalling that CDP brings together 475 investors who jointly manage assets valued at 36 billion Euros and compiles information on risks and opportunities identified relating to climate change, plans to reduce emissions and the transparency of corporate measures to mitigate climate change. In addition, the company has renewed its presence on the ethics investment index FTSE4Good for another year. Finally, to these global achievements, we add the numerous accolades and awards received by all our operators in the different countries where we are present.

Keeping up these achievements in 2011 will not be easy. Exceeding them will be a herculean task. For this reason we have proposed in-depth process re-engineering ranging from a new strategic viewpoint to a new work model. Only somebody who reinvents themselves each day can sustain a leadership position. For this we have incorporated into our bravo! program - a global program to transform the company for the period of 2010-2012 - Sustainability and Corporate Responsibility as key levers for the cultural axis. Therefore, together with our brand, our employees, corporate responsibility is a necessary lever to boost our relationship

with society. Progress on this topic is followed both in the Board of Directors, Telefónica's main governing body, and the executive committee, the main managerial body.

Secondly, also in the field of internal management, we have linked our strategy on this topic to the definition made by the DJSI: "Corporate Sustainability - it states in the index - is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments". This definition is also enabling us to make not only a more significant conceptual approximation to the phenomenon of corporate responsibility but, especially, more of a link to the business strategy, in the management of risks in our business, in the management of opportunities linked to the impact of our services in society and in the engagement of stakeholders.

Telefónica produces 17 Corporate Responsibility reports locally which are also verified. For this reason, in 2010 we opted to join the platform Global Compact Lead, an initiative comprised of approximately 50 multinational companies which seek to boost the notion of sustainability driven by the United Nations.

Finally, we are adapting our internal management model in order to fulfill these objectives. Working on sustainability issues means working horizontally (and together) with all areas and all organizational levels: corporate, regional or country. By ensuring we work horizontally, we will be able to achieve our goals. Our challenge is great. We believe that we can achieve it and continue to count on your trust.

A handwritten signature in black ink, consisting of a series of fluid, connected loops and strokes, representing the name César Alierta Izuel.

César Alierta Izuel
Global CEO of Telefónica Group.

Letters from the Latin American and Brazil CEOs

It is with great satisfaction that we present Telefónica's seventh Corporate Responsibility Report in Brazil, an important instrument for reflecting on our management practice, which helps us evolve in our objectives of transparency and promotion of sustainable development, reinforcing our commitment to the ten principles of our Global Pact in the United Nations.

2010 was an important milestone in Telefónica's history in Brazil. Acquiring complete control of Vivo allowed us to become the telecommunications market leader in the country, both in number of clients (about 76 million) and in revenue. This merger will allow us to provide a complete telephone service portfolio, fixed and mobile broadband, TV and many other innovative products and services.

Our commitment to improving the quality of our services and our attention to clients was implemented through several initiatives that resulted in a historic increase in our broadband client base, allowed us to be the only of the twenty largest telecommunication companies in the world to achieve an increase in the landline client base, and made us leaders in residential client satisfaction. Along the same line, Vivo remained the Brazilian market leader in pre and post paid lines and in mobile internet sales, and maintained the largest 3G network coverage with service to over a thousand municipalities by the end of the year. Such achievements have placed us among the Best Companies to Work in IT and Telecom, according to the consulting company Great Place to Work.

We developed our strategic plan in four pillars: Client, Offer, Platforms and Culture. The former is where our Sustainability strategy fits in, with the objective of creating trust based on building sustainable relationships with our target audiences through a commitment to society. In this strategy, based on our Business Principles, we focus our efforts in managing impacts generated by our business, in maximizing the positive impacts of our operations and in achieving a transparent dialog with all our audiences in order to improve our management practices.

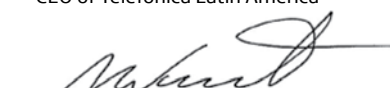
In 2010 we concentrated our efforts in providing more people access to technologies that met their communications needs, expanding our networks to remote locations, developing products and services to reduce financial inequality and creating different initiatives to promote accessibility. In addition, we efficiently managed our operations to mitigate the impacts our business may have on the environment and to potentialize Information and Communication Technology (ICT) as tools in assisting to reduce greenhouse gas emissions and mitigate climate changes.

We also maintained our investments in social projects, through the Telefónica Foundation, which has benefited thousands of young people in its 11 years in Brazil, with projects aimed at promoting the rights of children and adolescents, eradicating child labor and improving the quality of public education, with emphasis on communication and information technology.

Finally, we would like to stress our commitment to an ethical and transparent conduct; we believe that together we can build an ever better and more sustainable future.



José María Álvarez-Pallete
CEO of Telefónica Latin America



Antonio Carlos Valente
CEO of Telefónica Group in Brazil



Telefónica in Brazil and the world

With the purchase of Vivo, Telefónica consolidates its position as the most important telecommunications company in the country and reinforces its global leadership.

The companies comprised by the conglomerate are benchmarks in their area of operation and provide the best services to 76 million clients in Brazil

Vivo, 100% Telefónica

In July 28, 2010 Telefónica and Portugal Telecom signed a deal for Telefónica to acquire 50% of Brasilcel shares (an incorporation that owns approximately 60% of the capital for Vivo Participações, S.A.) for the amount of 7.5 billion Euros. The agreement was effective on September 27 with the payment of the first, and largest, installment: 4.5 billion Euros. The second installment (1 billion Euros) was made in December 2010, and the remainder will be paid on October 2011. The operation gave us control of Vivo, the Brazilian market leader in mobile communication, and constitutes the most important step in our growth strategy for 2010. With this acquisition Telefónica took the first position in the Brazilian telecommunications market. Not only does the country have a potential market of 200 million people (the largest in Latin America), but the integration of the landline and mobile businesses in the country's territory will allow us to provide our clients a complete telephone service portfolio, fixed and mobile broadband and pay TV services, as well as other innovative products and services.

Founded in 1924 in Spain, Telefónica is one of the three largest telecommunications conglomerates in the world, in number of clients: over 287 million accesses in the 25 countries where it operates. It provides direct employment to 269 thousand professionals, in four continents – Europe, Americas, Africa and Asia. In 2010, with the purchase of the shares of Vivo from Portugal Telecom, Telefónica became the largest telecommunications company in Brazil, where it now has around 76 million clients. The country represented 18.3% of the company's net global revenue (in 2009, it had been 14.8%) and it remained as the second largest market in revenues in the world, behind only Spain.

The importance of our presence in Brazil is made evident by the list of companies whose shares we control or in which we have a significant share holding. These are:

Telefónica de São Paulo – Landline service provider in the state of São Paulo, it currently has about 11.3 million clients. It also provides broadband internet service (Speedy) and cable TV.

Vivo – Mobile network operator wholly controlled by Telefónica since September 2010 (see table); it is the largest company in the sector in Brazil, with over 60 million clients.

Terra – The largest internet provider in Brazil, the Terra portal is becoming the most visited video website in the country.

Atento – Contact center leader in Latin America, Atento is one of the most important employers in Brazil and closed 2010 with about 80 thousand direct employees.

TGestiona – Provides full administrative and logistic services, offering efficient high quality solutions in logistics, third party management and outsourcing.

TVA – The pay TV company in which Telefónica is a minority shareholder is a partner of the Abril Group.

TIWS – The Telefónica International Wholesale Services provides telecommunication services to telecommunication operators, internet and content providers. Its backbone provides connectivity between Latin America, US and Europe through a fiber optic network.

TESB – The Telefónica Engenharia de Segurança do Brasil provides complete solutions in security technology for large corporations, companies and government bodies.

Rumbo – A partnership between Telefónica and Spanish Orizónia Corporación and market leader in Portugal and Spain, the Rumbo travel agency started its activities in Brazil on September 2010.

Telefónica Foundation – In Brazil since 1999, the foundation coordinates Telefónica's social investments, contributing to the continuous progress of the regions where the company operates.

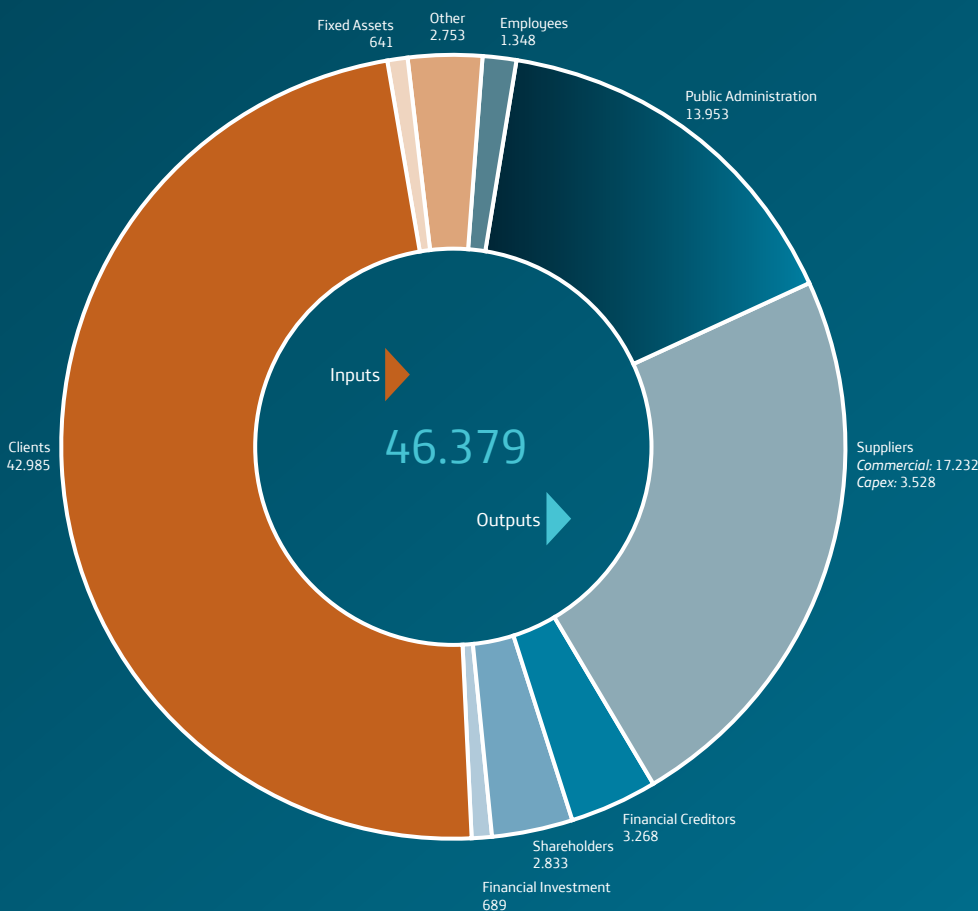
In this report, each chapter touches on companies of the conglomerate that are more significant to the relationship audience in question, according to the recommendations for establishing the limits of the Global Reporting Initiative (GRI) report. The economic results of Telefónica's operations in the country are presented based on consolidated data from all operations.



Driver of progress

The distribution of the financial inflows of Telefónica SP and Vivo in 2010, as shown below, further detail the Group's role as redistributors of the resources it collects in Brazilian society. One can see in the graph how the resources collected are distributed in society, including suppliers, public administration, employees, credit bodies and shareholders. **All values shown are in million Reals.**

Telefónica is a driver of economic, technological and social growth in Brazil



Important note: Information in this chart was obtained from internal sources for Telefónica's cash flows in Brazil and assessed by the RC report controller. The data listed may be affected by subsequent events and developmental effects that, in turn, may modify the content.

An aerial photograph of a lush green landscape. A winding river flows through the center, surrounded by vibrant green fields. In the upper left, a small cluster of buildings and a parking lot are visible. The overall scene is bright and sunny, with long shadows cast across the fields.

01 SUSTAINABILITY STRATEGY

1 Growth pillars

| 09

1

Growth pillars

01

SUSTAINABILITY STRATEGY

With *bravo!* we powered our sustainability strategy

The current technological revolution is characterized by a profound transformation of society's cultural standards. For people, technology exists as a tool that goes beyond facilitating countless daily activities, since, by providing new interaction possibilities, it allows for a redefinition of the very method of communication. As a telecommunications company, Telefónica believes that it can be a protagonist at this historic moment. It has much to contribute, both for the services it provides and for the creation of digital environments that can meet the needs of 21st Century consumers. The key to this great challenge lies in enhancing everything we do, in order to become the best digital company in the world; in pursuing this goal Telefónica has build four work pillars.

The first of these pillars are the clients, who are central in all we do. The second is our commercial offer – a promise we back with an experience offered uniquely through our products and services. The platforms, the third pillar, are the cutting edge investment that drives this technological transformation. The fourth pillar, culture, provides support to the sustainability of the strategy, from the very foundation of who we are as a team.

Therefore our culture constitutes the leveraging pillar of the *bravo!* strategy (a global program to transform the company by 2010) whose objective is to establish long term sustainable relationships with all our relationship groups. Through understanding how we operate, the way we make decisions and the values we accept as a team, we will be able to meet the value commitment with each of the societies in which Telefónica operates.

“Culture” is the leveraging pillar for *bravo!* - our global transformation program aimed at building the best and most sustainable digital company in the world.



Sustainability for all relationship groups

→ How we behave...

→ How we make decisions...

→ Our values...

→ Trust to create + Value

Telefónica understands corporate responsibility as a tool for generating value for the company. It allows us to build sustainable ties with audiences with whom we have a relationship, generating trust through effective risk management of our operation and business opportunities, and increasing our authenticity in the societies where we operate.

Risk Management of issues that have a direct influence on our reputation, which is based on Telefónica Business Principles – the basic guideline from which stem all policies and norms related to the company's relationship with its audiences.

Opportunity Management, seeking to contribute to social development where Telefónica operates, promoting digital inclusion, combating climate change and delivering on our social commitment through the Telefónica Foundation, to create value and maximize the positive impacts of our operations.

Stakeholder engagement through transparent communication and effective dialog with all our audiences, allowing us to identify their expectations and incorporate them into our action plans.

The perception of Telefónica's corporate responsibility is monitored by the RepTrak index developed by the Reputation Institute, which measures the company's reputation in society.

Moreover, the Group's metrics also include the Dow Jones Sustainability Index, the most relevant global index of socially responsible investing. In 2010, this index considered Telefónica S.A. the leader in the telecommunications sector for the second consecutive year, earning 84 percentage points, 26 higher than the average for the sector.

The index identified Telefónica as the company with the best practices in seven fundamental aspects: risk and crisis management, provider company,

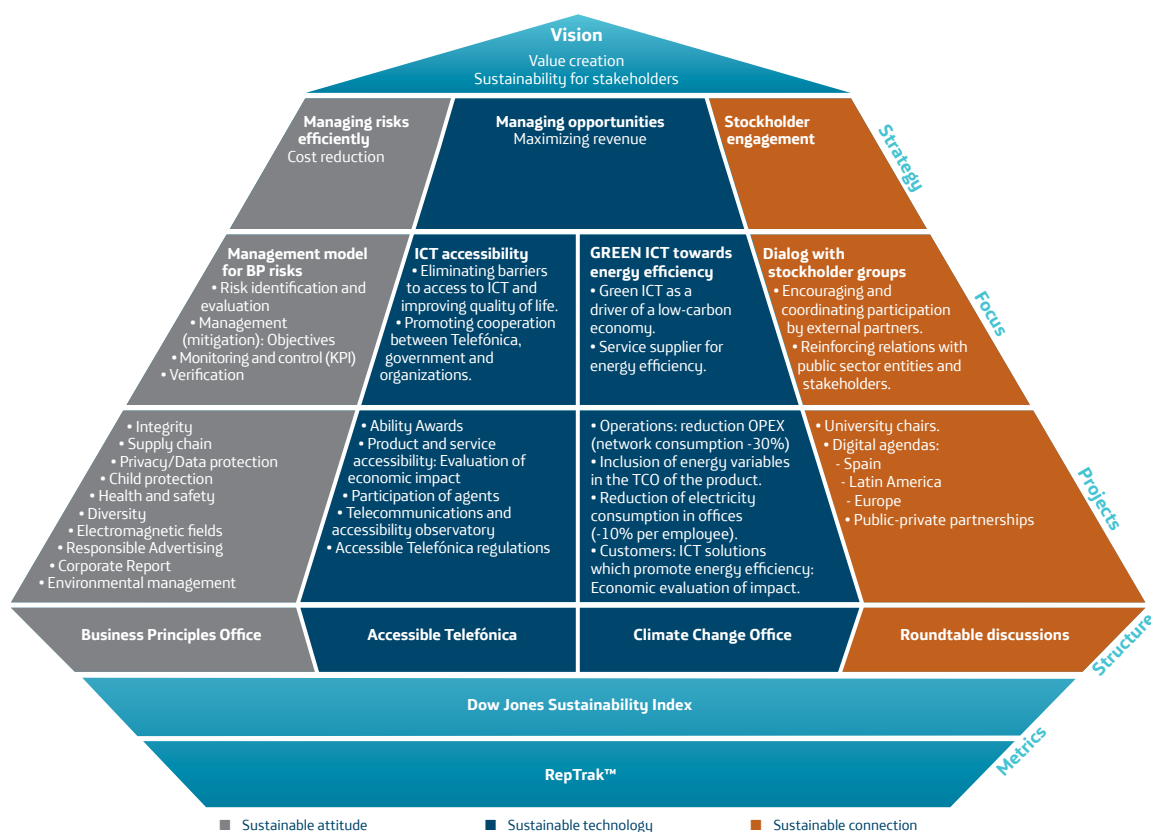
environmental policies, human resources development, impact of telecommunication services, social action and commitment to stakeholders.

Sustainability concept at Vivo

Vivo essentially shares the same sustainability vision as proposed by Telefónica. The result of the multiconnection of desires expressed by employees in workshops, chats and other methods of network communication, it is guided by six directives, from which three commitments are derived that organized the company's operational fronts for common objectives: Sustainable attitude, Sustainable technology and Sustainable connection.

The affinity of thought between Telefónica and Vivo in terms of sustainability facilitates the merger of the two policies in this regard, scheduled for 2011 and summarized in the figure below.

Corporate responsibility strategic schematic



Analysis of materiality

As part of the value creation strategy, we developed a matrix of all relevant subjects for the various Telefónica audiences, based on the requirements of international bodies (such as the Organization for Economic Cooperation and Development, the European Committee, country specific legislation and regulations), responsible investment indexes (such as the Dow Jones Sustainability Index and the FTSE500), risk analysis of our operators, issues mentioned as relevant in

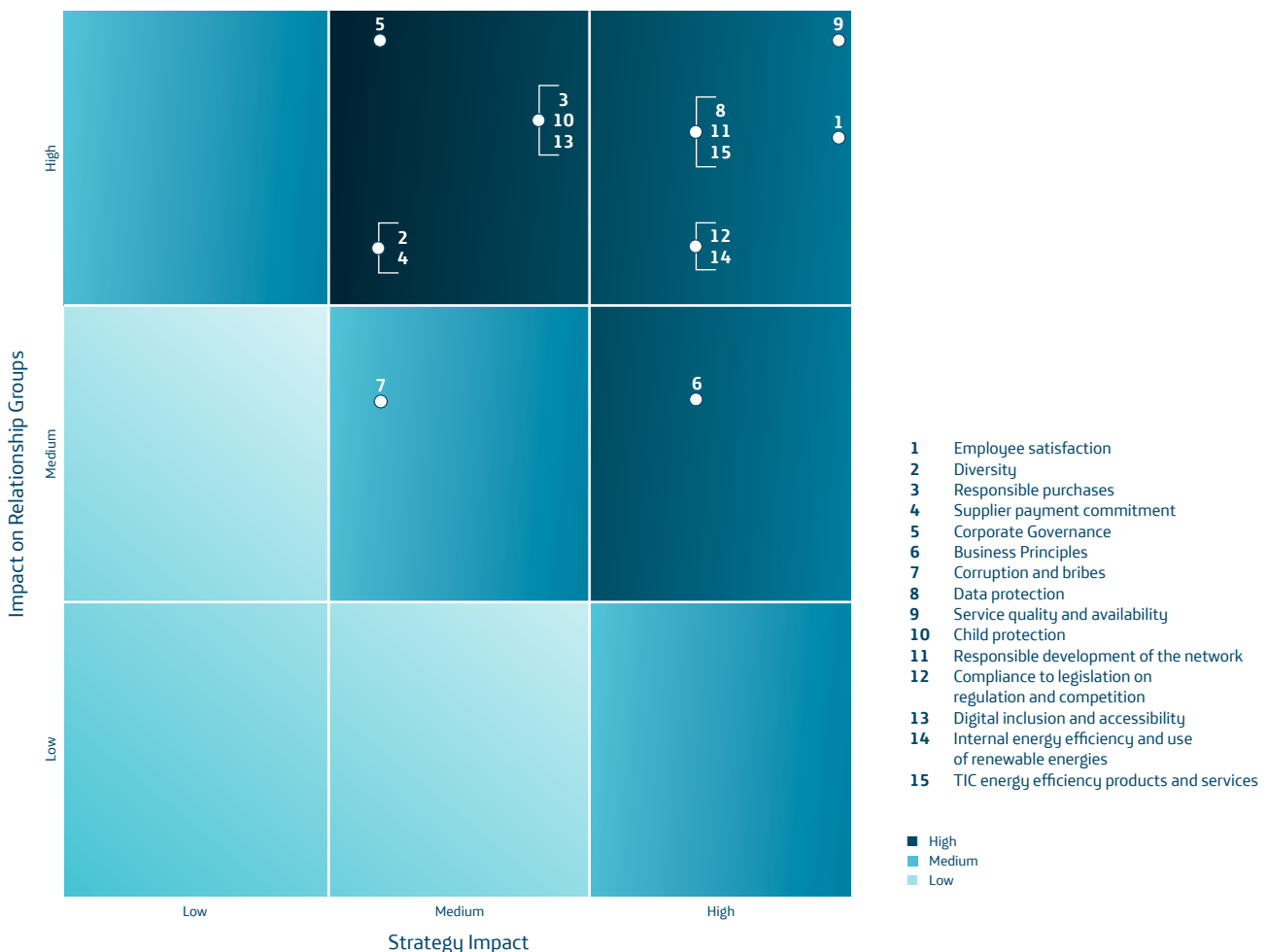
dialog panels with stakeholder representatives and subjects reviewed in the Business Principle committees. For the elaboration of this Report of Corporate Responsibility and Sustainability, of the 36 subjects identified, we accounted for those prioritized as medium and high level. Priority issues were distributed in this report, while in parallel addressing the sustainability strategy established by Telefónica for 2012 and the principles of all-inclusiveness and response capacity of the AA1000AS standard.

Matrix developed by Telefónica identifies issues relevant to all stakeholders

Metric criteria

Influence on Telefónica	External influence
Client satisfaction	Employees
Employee satisfaction	Clients
Growth	Suppliers
Efficiency	Shareholders / Investors
Shareholder return	Regulating bodies / Government
	Society
	Communication media

Materiality matrix





02 RISK MANAGEMENT

1 Integrity	13
2 Data protection and privacy	14
3 Interactive generation	15
4 Service quality and availability	16
5 Diversity	18
6 Responsibility in the supply chain	19
7 Environmental strategy	20

Honesty, trust, respect of laws and human rights, ethics – these are among the Business Principles that guide our activities around the world

Telefónica follows the principles associated to the themes of honesty and trust, respect for the law, integrity and respect for human rights, expressed in the Business Principles, a document approved in 2006 and valid for all its operations around the world. They inspire and define the way we develop our activities.

Therefore, we encourage all employees to share in them and we invest on our partners and suppliers to follow principles similar to ours. That allows us to earn the trust of our audiences and maximize the long term value for shareholders and society in general.

Employee involvement

In order to disseminate the lessons of the Business Principles to all employees, we developed an online training course for new hires, during the integration program.

In 2010, two meetings a month were held with in-person attendance, which introduced the company as a whole and its main development programs, and included a section about the Business Principles. After the in-person training everyone was invited to perform the online training.

The same process takes place in partner companies: they are introduced to the subject in integration meetings and have access to Business Principles materials in their own intranets.

Business Principle Committee

The Business Principles are the foundation for strict and professional decision making. The responsibility for compliance lies with the Business Principles Committee, created in 2007, comprising the corporate departments of Institutional Relations and Business Development, Human Resources, Legal and Internal Auditing, which meet periodically to discuss subjects related to this topic. In 2010 two meetings were held.

Auditing and control

All Telefónica professionals have access to the standards that regulate the decision making processes, purchases and quotes. Additionally, they rely on confidential channels that

allow them to report issues, ask questions, seek advice and raise issues associated to compliance to the Business Principles.

Suppliers and other stakeholders also have access to confidential channels, through portals specifically enabled for relations with the various audiences.

In 2010, our global channels received 121 communications, anonymous or personal. Among those, 84 were consultations regarding the application and implementation of our Principles and associated policies; the rest were about possible non-compliances.

Still in 2010 there were 37 reports on internal global channels, whereby administrative steps were taken in the 14 cases considered relevant.

Moreover, Telefónica has anti-corruption control mechanisms, such as Committees of the Administration Council, Internal Auditing and Intervention Units, Independent reviews by external auditors, and internal policies and standards.

To ensure the highest control over internal company processes, in 2010 the payment management system was intensified with the implementation of the Single Window (a fiscal document receipt process), as well as the centralization of the control of purchases made outside of the purchasing department.

At Vivo, any report of non-compliance to the Vivo Code of Ethics can be made over the Vivo Alert channel, by phone, letter or e-mail.

The confidentiality of the information and the reporter's anonymity are ensured. All reports are investigated.

Vivo code of ethics

The Vivo Code of Ethics touches on the behavioral limits and parameters that must be followed by its employees. It highlights the importance of ethics and conduct as crucial points in the convergent relationship to be adopted by all who comprise the company, in regard to not only regarding the internal audiences, but external as well. This relationship is based on the reciprocal trust that is sought, without prioritization, in providing good customer service, creating value for shareholders, achieving corporate objectives and caring for the well-being and dignity of our employees and executives. Though these are fundamental points in developing the business and attaining its social objective, the quest for results and goals does not, at any time, justify procedures that involve manipulation or concealment of numbers, documents or information. Also unacceptable is non-compliance with the law, standards, policies and guidelines, or the infringement of ethics or other organizational values, for the sake of efficiency.

Data protection and privacy

A controlled environment that is protected and the commitment from all employees to data confidentiality ensure the security of our clients' information

At Vivo, the Information Security Policies are continuously enhanced to meet the dynamics of mobile technologies

As a communications company, Telefónica understands that data security and client privacy are essential to a sustainably business management. Therefore, the company works in a continuous manner to ensure that such information remain in a controlled environment, protected by specialized software (RACF) and by processes that ensure access by employees is granted only under approval by those responsible for such materials.

Telefónica has several protection barriers to ensure the integrity of client data. These include Intrusion Prevention System (IPS), Intrusion Detection System (IDS), firewall, anti-virus and anti-spam; access to the internet is controlled through Proxy technology with user authentication, standardized workstations and employee authentication through the use of access accounts (user names and password). Vulnerability tests of the safety infrastructure are conducted periodically.

Other noteworthy procedures aimed at Information Security are:

- Policy and Corporate Information and Technology Security Standard implemented and publicized among employees.
- Awareness program aimed at Information and Technology Security for employees and consultants.

Telefónica conducts the annual certification of signature of the Terms of Responsibility and Confidentiality for company executives. That ensures that all our employees are aware and in agreement with the procedure.

"Protection of subscribers' telephone and telematic communications and personal data". In 2010, the departments involved were audited in order to ensure compliance to the terms of the standard. We intent to automate this process in 2011, making it faster, less expensive and with better controls.

In 2010 Vivo created new Information Security Policies to complement its existing policies and client data and information protection projects. Noteworthy among the new policies are the Data Loss Prevention project (DPL), the Identity Management project and the Intrusion Prevention Improvement project.

Besides developing in-person actions for new employees regarding the subject of Information Security, we conduct an awareness campaign for all Vivo employees, touching on subjects related to passwords, mobile devices, phishing and care in exposing information in various digital media.

Telefónica and Vivo, along with other telecommunication service providers, are committed to helping make available information of people being investigated for internet crimes against children and adolescents, given an official judicial request. This commitment was signed in September, 2009, between the Federal Senate Pedophilia CPI, the Federal Public Ministry, the National Council of Attorney Generals, the Rio de Janeiro State Public Ministry, the Federal Police Department of the Ministry of Justice, the Internet Management Committee and Safernet Brazil.

Interactive generations

Incentive for the safe use of Information and Communication Technologies involves research, education and far-reaching actions

Of the over 180 million Latin American Telefónica clients, a large portion comprises children and adolescents. In their behalf, in 2007 we launched a pioneering initiative: the Interactive Generations project in Iberian-America, with actions in four axes - education, self regulation, products and services and social network training. It has three major objectives:

- Learn about the use of ICT (Information and Communication Technologies) by Iberian-American students.
- Convey this knowledge to parents, educators and social agents;
- Provide practical actions – educational, legislative and corporate – that represent our commitment.

As a part of this program, we conducted the largest research ever made of the use of various screens, in partnership with the Telefónica Foundation's EducaRede program and Navarra University (Spain). In its first phase, between 2007 and 2008, the study involved over 80 thousand students from seven countries in the region. Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. The research and its results were published in the book "The Interactive Generation in Iberian-America. Children and adolescents in front of the screens", launched in Brazil in March 2009. In our country, the study involved over 8 thousand children and youths from urban schools in the state of São Paulo. To ensure a representative sample, we considered 4,205 students from public and private schools, - 790 between the ages of 6 and 9 and 3,415 between the ages of 10 and 18 -, who answered an online questionnaire applied in the participating schools' IT classes. The resulting book is available for download from the EducaRede portal (www.educarede.org.br).

In 2010, a new research cycle was started, this time nationwide. By December, approximately 12 thousand students between the ages of 6 and 18, from schools in all regions of Brazil had participated in the initiative.

Based on the results of this research, in April 2010 Terra launched the "Safer Internet" campaign to encourage the supervised and safe use of the internet by children and adolescents. The portal makes the Terra Web Filter available to internet users, free of charge, which allows parents to create content filters to block children's access to offensive websites with inappropriate content. The configuration can be done by age-group, as well as controlling internet access times. In support of the campaign, Terra developed its interactive website <http://seguranca.terra.com.br/internetmaissegura/>

The largest research ever done about the children and adolescent use of several screens resulted in the "Safer Internet Campaign"



Safe internet use in the family

Telefónica sponsored the printing of the first 10 thousand copies of the booklet Safe Internet Use by the Entire Family, developed by the High Tech Crime Commission of the OAB-SP in partnership with LEEME – Laboratory for Ethics Studies in Electronic Media - of Mackenzie University. The launch took place in the Second Congress about Electronic Crimes and Methods of Protection, held on September 2010 in São Paulo. The action resulted in intense publicizing of the company's name during the event, which counted with participation from members of the federal government, private sector companies, international bodies and lawyers specializing in the sector.

Service quality and availability

Strategic projects resulted in process improvements in networks, lines, accounts, traffic and broadband

Investments in expansion of service and diversity contributed to client gains in several fronts

Telefónica has a continued commitment with its clients: to ensure the quality of the services provided and continuously improve its relationship with them. The realization of these principles is manifested both in the increase of the Client Satisfaction Index (CSI) and the maintenance or reduction in the low numbers of cancellations (churn) in all its services. The investment in quality has resulted in a reduction in the number of calls to the company's call center from 6.3 million in January 2009, to 2.8 million in December 2010, a 56% reduction.

Telefónica Strategic Projects

In 2010, several Telefónica departments were involved in strategic projects to improve the quality of processes related to networks, lines, accounts, traffic, broadband and others. All projects closed the year with excellent results. The IT Modernization project, for instance, had the objective of delivering to all company departments the most important systems developments and, in its final phase, increased delivery by 50% in comparison to the previous years.

Another successful initiative was the Line Quality and Improvement project, aimed at reducing complaints made to the National Telecommunications Agency (Anatel) and implementing several control and certification points. We created a flow with the sales department to ensure that all canceled lines closed out the cycle of sale and cancellation process. Moreover, Telefónica's landline diagnostic tool was reviewed.

The Landline Valuation project's actions were also noteworthy in allowing Telefónica to be the only landline telephone company in the world to gain clients, which is contrary to the downward trend seen among large international telecommunication companies. That was possible due to several actions such as the creation of a new sales channel for domestic products and services, the Door

to Door (Porta a Porta). It uses sales teams recruited from the neighborhoods where they sell, and contributed to over 30 thousand landline sales each month. Another relevant initiative was the development of value added campaigns in landline services providing better offers. At the end of 2010 the company had 11,296 million landline clients, with 39 thousand net additions over the year.

The achievements of 2010 also include Telefónica's addition of 680 thousand new broadband clients between January and December, reaching a total of 3.3 million users in the state of São Paulo. In comparison to the previous year, the Speedy client base increase was 26%, the largest increase of its kind in the history of the company. No less than 77% of Telefónica's broadband sales in 2010 were made to people in classes C and D, a rising social class in the country in the last few years.

Enhanced quality, focus on Vivo in 2010

In 2010 Vivo continued actions to enhance client services, seeking excellence in its operations and in its main relationship channels with this audience. Of the improvement initiatives, the revitalization of the stores and the SMS service are of note. The first initiative implemented a transformation of the entire in-person client service model and architectural standards, to provide the client with an excellent experience through innovation, quality, comfort, sustainability, accessibility and promptness. By the end of 2010, four stores had undergone the transformation.

The SMS service was launched as an alternative client service, where the client could submit a question or request to the number 1058; the request would undergo an automatic screening to inform a Vivo representative who would then interact with the client via SMS. The service's efficiency was reflected in the positive satisfaction surveys.

The company has different Broadband offers for each audience, and has made an effort to meet the needs of all social-economic classes

Fiber Optics with speeds up to 100 Mbps

**Basic Portfolio
1, 2, 4, 8 Mbps**

**Affordable Broadband
R\$ 29.80 per month**

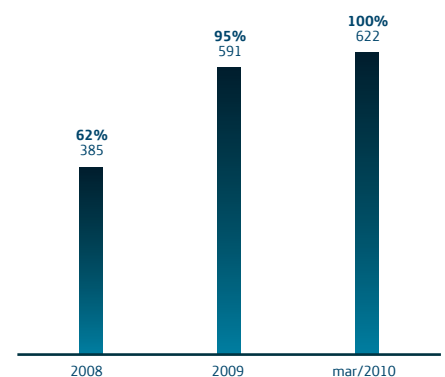
**WI-MESH
ADSL
CABLE**



- 11.5 thousand clients connected in 2010
- 470 thousand home-passed in 2010
- Forecast of 1 million clients in 2015

- Available in all Speedy coverage area
- Offers without download limits
- Reaches 1 Mbps in trio
- Approximately 130 thousand internet accesses in Feb/11

Municipalities served by fixed broadband – Telefônica SP



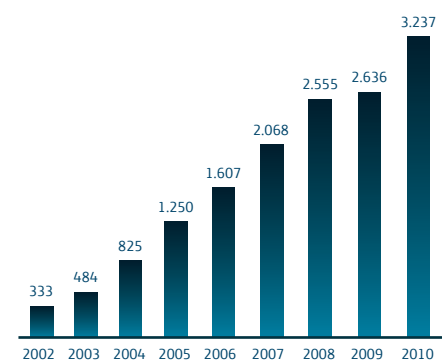
3G Coverage Expansion

In continuing the mission to provide mobile internet access to the largest number of people, generating positive impacts on society and the country, in June 2010 Vivo launched the Vivo Internet Brazil plan, aimed at extending the 3G coverage from 600 to 2,832 municipalities in Brazil by the end of 2011. The goal is to provide mobile access

to the internet to over 85% of the population before the end of 2011 (in June 2010, this number was 61%).

Vivo went beyond the goals established by Anatel for the sector. Today it continues as the leader in 3G coverage and, by the end of 2010, covered 1,206 municipalities (corresponding to about 72% of the population) - a much larger number than the sum of all municipalities covered by the competition (809 municipalities).

Speedy Client Base



Faster broadband

Telefônica is the first company in the country to use FTTH (Fiber to the Home) technology, a network that by the end of 2010 reached about 470 thousand homes (home passed) in the greater São Paulo, Santos and Campinas and had 11.5 thousand active clients in fiber optic broadband (internet at speeds of 30 to 100 mbps) and/or fiber optic TV (superfast internet and cable TV service – in partnership with TVA – with HD channels and virtual movie rental). Starting in 2011, the five year goal is to reach one million clients and also develop converging solutions in landline and mobile telephone service ensuring quality and innovation.

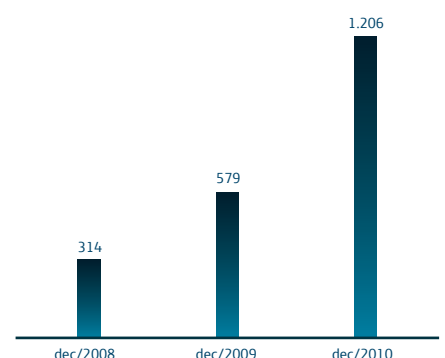
Telefônica is a pioneer in offering broadband, and today we make the service available in all municipalities that receive our landline service.

Client Services – Call Center

In 2010, Vivo expanded its sales channels in the client service center, with personalized offers. This initiative, using new channels like SMS, chat, e-mail and internet, was considered successful. A call management tool was implemented that allows for intelligent distribution to the most suitable agent or channel.

Online, Vivo recorded over 40 million sessions and over 200 million client service transactions. The e-mail channel received over 100 thousand messages over the year. At the end of 2010, a free SMS service channel was launched for all the company's clients, 24 hours a day. In that year alone 683 thousand service instances were provided on this channel.

Municipalities served by 3G broadband – Vivo



Our responsibility towards our employees encompasses the inclusion of people with special needs and various health and safety programs

We value gender equality; growth opportunities in the company follow strict professional and personal criteria

Telefónica maintains an inclusion program for professionals with disabilities, developed from a view point of efficiency and equal opportunity. In September 2008, an Agreement of Collective Inclusion of People with Disabilities in the Workforce was signed with the Ministry of Labor – Regional Office of Labor and Employment of the state of São Paulo.

It aims at providing people with special needs training courses for job market inclusion. To that end, it seeks to promote their education, providing them with a course to finish high school, and train them for the workforce, focusing on telecommunications, human resources administration and IT. There are 150 spots in courses lasting eight months, available through partnerships. At the end of 2010, 47 students attended the courses, with scheduled graduation for the first half of 2011. At the end of 2010, Telefónica had 308 special needs employees, a number that is still lower than determined in current legislation (5% for companies with over one thousand employees), but still 28.9% higher than the previous year.

Vivo seeks to have the necessary infrastructure for people with disabilities, promoting adjustment actions for the team that will receive the professional. The organization also promotes training and development courses focused on professional development in sports programs. The initiatives allow special needs employees – a total of 134 in 2010 – to have the conditions necessary to achieve high quality performance of their functions. At the end of 2010, Atento had 56 special need professionals, T Gestiona, 63 and Terra, 17.

Gender equality

We believe that the hiring and promotion processes must evaluate candidates based solely on their professional qualifications. There is no incorporation and promotion policy for women, because the company treats all people fairly and impartially, without prejudice to race, color, nationality, ethnicity, religion, gender, sexual orientation, marital state, age or family responsibilities. At the end of 2010, 30 women held management positions in the company, a representation of 17.3% of the total governing body.

Health and safety

In compliance to legal requirements, through the Internal Accident Prevention Committee (CIPA), Telefónica and Vivo identify, periodically evaluate and control risks and impacts related to employee activities, establishing a systematic control of unacceptable risks. As preventive measures, we implemented awareness, education and professional training programs.

The collective agreement signed by Telefónica with the Union of Telecommunication Workers (Sintetel) also covers subjects related to worker health and safety. Among other benefits, the agreement determines sick and accident leave payment complements for workers unable to work.

Accidents and emergency measures –

Besides being concerned for the safety of its internal audience, Telefónica, Vivo and other Group companies maintain an interactive contact with contractors to ensure the availability of specific work safety training and procedure standardization.

Supply chain responsibility

The relationships with our suppliers involve respect, commitment and initiatives to help them apply sustainable practices in all their businesses

Telefónica is aware of its responsibility to its suppliers, both for its international presence and for the impact and volume of its direct suppliers. For this reason, we establish, promote and maintain high social responsibility standards in our business lines, complying to ethical, environmental, labor and health and safety standards over our entire supply chain.

This attitude is not just related to a corporate conduct. We also aim to improve the quality of life and work conditions of people involved in our supply chain. We therefore contribute to the realization of a better and more sustainable world, reinforcing our commitment to the Global Pact.

This policy originates in Telefónica's Business Principles, which serve as a benchmark for the company's public relationships. It is also linked to our commitment to Responsible Management of the Supply Chain, in compliance to international standards, including the UN Universal Declaration of Human Rights and the conventions of the International Labor Organization (ILO).

We have a strategy to prevent and mitigate supply chain risks, based on evaluation of the risk potential for suppliers and by the defined action for each identified risk. Through the Supply Chain Responsibility Policy, we inform our suppliers of the criteria and standards expected of them in terms of sustainability, encouraging them to extend these actions to their own value chains.

When suppliers are registered to provide services to Telefónica, they are classified by different codes according to the type of product or service they provide. In this analysis, those suppliers registered with codes that are considered at risk must answer an online self-evaluation questionnaire, available on the Supplier Portal. There are about 50 questions, based on the UN's Human Rights Declaration, on the ILO Conventions and on environmental legislations. Our basic requirements for suppliers are:

- Not allowing child labor or forced labor.
- Not accepting dangerous working conditions or inhuman treatment at work.
- Requiring compliance to environmental legislation.

In 2010, all at risk suppliers registered were evaluated. We also noticed an improvement in the levels of moderate and low risks and a reduction in the number of high risk suppliers.

With the Partner Program, we facilitated training and checked the work conditions at partner companies

Partner Programs

At Telefónica, we understand that our suppliers are strategic partners to the development of our business. Therefore we maintain the Partner Program, in order to reinforce and tighten the relationship with these partners, through training actions, hiring guidelines for outsourcing companies and regular monitoring of work conditions and working documents (by sampling). In 2010, Telefónica SP conducted 708 monitoring activities.

Through the Estela project, created by the company in 2005 in several Latin American countries, our installation and repair services technicians undergo online training to create a management system for individual improvement in client services. In total there have been 6,517 certified technicians from Telefónica SP, 1,291 of which were certified in 2010.

Environmental strategy

We work so our operations respect the environment and promote sustainable development

We rely on an environmental policy that is shared by all our companies

Telefónica considers environmental care as an integral element of its business objectives. Our efforts in that matter are not only toward complying to the legislation of the sector but also with improving operational efficiency through resource utilization control. Currently, climate changes and the need to reduce environmental impact create an important business opportunity in the segment of services provided by Information and Communication Technologies (ICT).

We are aware of the repercussions - both positive and negative - that our activities have on the environment. Therefore we voluntarily commit to developing our operations with respect for the environment and in contribution to a more sustainable progress.

This commitment is signed in the Business Principles, approved in 2006. "We will be committed to sustainable development, environmental protection and reduction of any negative impact our operation has on our surroundings".

Our environmental strategy is based on two pillars:

- The implementation of a Global Environmental Management System (SGA) aligned with the international ISO 14001 standard, which establishes the minimum common elements for the operations of the conglomerate around the world;
- The Climate Change Office, whose main objectives are to ensure the reduction of energy consumption, and consequently greenhouse gas emissions, empower the development of more efficient services for clients and position TIC as part of the solution to this global problem.

The evolution of Telefónica's train of thought on this matter is reflected on the Environmental Policy. In regard to environment and climate change, it establishes, in ten action points, the conduct for all companies in the conglomerate - as well as their employees.

Environmental risk analysis

Based on environmental risk mapping performed at Telefónica SP in September 2009 by PricewaterhouseCoopers, in 2010 we had a meeting with all departments related to those risks, to define corrective and preventive actions in an effort to implement the Global Environmental System in the company. The management processes were defined for the subject, accounting for impacts to revenue, clients, employees and legislation, as well as the Environmental Behavior Index.

Since 2009, Vivo has participated in the Bovespa Sustainability Index (ISE), which functions like a standard for good sustainability practices. To participate in the index, the company drafted a strategy for the implementation of the SGA, based on continuous improvement and supported by Corporate Risk Management and by the regulations that guide ISO 14001. The SGA was based on an analysis of environmental issues and impacts, which guided the implementation of processes and procedures to address any possible environmental impact identified. Part of the implementation of these processes is complete.

Waste management

Telefónica SP has specific contracts to ensure the appropriate disposition of waste that contains dangerous substances, such as generator batteries and fluorescent lamps. In the case of telephone cables, the residues are sold as scrap. Until 2010, there was no sorting for administrative waste. The paper waste generated in the company's offices in the city of São Paulo is donated to a non-profit institution, Semear - Association for the Integration and Support of the Physically Disabled.

In the case of Vivo, the disposal of stationary batteries used to support operations in preventing electric network power oscillations, is addressed in a contract with suppliers who dispose of them appropriately.

Digital certification

The digital certification process used since August 2010 by some of Telefónica's departments (and that should be consolidated over 2011) has had results worthy of celebration. The technology, consisting of substituting manual processes and paper documents for digitally-signed and network-filed digital documents, was implemented in partnership with Certisign, the largest Brazilian company focusing exclusively in digital certification solutions.

The Telefónica teams and its partner companies, responsible for monitoring and executing services such as landline and broadband (Speedy) installation and repair, no longer print the three copies of documents that had to be manually signed. Instead they use tokens, devices similar to a flash drive that contain electronic keys and cryptographic bearer identification information, allowing for digital signatures with the same legal authority. The initiative avoids printing millions of contracts and leads to a savings of R\$ 460 thousand per year, significantly reducing our environmental impact. Moreover, it lowers the sampling team's monthly workload from 220 hours to 4 hours.

Usage of resources and materials

The care Telefónica has with the environment goes beyond a simple commitment: it is an integral element of its business objectives. With that in mind we have been developing several actions to improve our operational efficiency and reduce our environmental impact through controls of our use of materials.

Paper and water consumption in 2010 – Telefónica SP

Paper (kg)	1,675,472
Water (liters)	1,062,162,000

Vivo Recycle Your Mobile Project

One of the main examples of Vivo's commitment with solid waste management is the Vivo Recycle Your Mobile Project. Started in 2006, it is a pioneering program in recycling and reverse logistics for mobiles, batteries and accessories. Launched as a pilot in Vivo's own stores in Brasília, Rio de Janeiro and São Paulo, by 2008 it was implemented in all stores, authorized resellers and exclusive Vivo dealers, for a total of 3.5 thousand collection points around Brazil. By December 2010, more than 875 thousand mobile telephones and 2.3 million other items had been forwarded for appropriate disposal. The resources obtained with the initiative are given to conservation projects of Brazilian fauna and flora supported by the Ecologic Research Institute (IPE).

Responsible development of the network

Fuel tanks – Telefónica SP has 489 buildings with fuel storage for generator groups and since 2004 has developed a project to replace and update the storage tanks. Three stations have undergone this process in 2010, resulting in a total expenditure of R\$ 506,005.67.

Noise control – Continuing with the goal of improving the acoustics handling of telephone stations, in 2010 Telefónica SP made adjustments to 12 units (combined with pollution control). The total expenditure with this work reached R\$ 759,856.00

Emission of pollutants – In 2010 we continued with the installation of catalysts in new generator groups to reduce the emission of pollutants derived from burning fuel. Sixty four catalysts have been installed in 46 stations. According to the manufacturer information, the catalysts should reduce carbon monoxide emissions by 97%, hydrocarbon emissions by 68%, nitrogen oxide emissions by 72% and aldehydes by 62%. Another advantage is the noise reduction by up to 22 decibels. The expenditures in this action for the year total R\$ 302,448.18.

Green building – Vivo's new Data Processing Center, located in the Tamboré neighborhood in the greater São Paulo, earned the Leadership in Energy and Environmental Design (LEED) award, in the silver category. This seal, granted by the American organization Green Building Council, serves to measure the sustainability level of buildings. The criteria that stood out in the evaluation were soil sustainability, water conservation, rational use of power, control of pollutants, and use of green seal materials that are less harmful to the environment.

CDMA technology deactivation – The CDMA technology deactivation project involves the sale of obsolete assets, in a skilled and technical operational dynamic that aims at avoiding costs related to storage, rental and/or sharing (in unproductive areas). At the same time that it addresses best sustainability practices, the sale of these materials in the secondary market also eliminates obsolete assets and increases business profitability. The project encompassed a Vivo client base of 4.9 million users until November 2010. Vivo also established the goal for 2011 to implement reverse logistics for equipment, with appropriate decommissioning and disposal of waste. The measure will enhance cost reduction, mitigate financial impacts and prepare an alternative substitution to the deactivated technology in a way that meets all legal requirements for solid waste disposal.



Sustainability at the new Vivo stores

In 2010 a project was started to review the layout and architectural standard of Vivo's own stores, to provide the client a better purchasing experience and communicate the characteristics associated to the company: innovation, quality, comfort, accessibility, 24hr attention and sustainability. The latter aspect received special attention in the use of raw materials that are less harmful to the environment. Synthetic flooring that is manufactured from about 67% recycled materials, furniture made from certified wood, displays made from recycled plastic, longer lasting, power saving LED lighting and digital communication that reduces the amount of printouts and reduces the use of items like paper and ink among other things.

Waste produced 2007 – 2010 Telefónica SP

	2007	2008	2009	2010
Cables (kg)	13,088,700	4,710,019	4,805,000	4,456,211
Batteries (kg)	878,407	656,510	1,306,733	802,552
Lamps (kg)	12,530	16,364	6,415	3,887



03

MANAGEMENT OF OPPORTUNITIES

- | | |
|---------------------|----|
| 1 Climate changes | 23 |
| 2 Digital inclusion | 26 |
| 3 Accessibility | 28 |

At Telefónica, we are committed to reducing our impact and preserving the environment

Telefónica believes that through Information and Communication Technologies (ICT), it will be able to face climate changes in two ways: by mitigation – reducing carbon dioxide equivalent (CO₂eq) emissions in its operations – and by adaptation – leveraging ICT possibilities to address climate changes.

Our commitment to fighting climate changes was published in June 2008 in Spain, with the announcement of the creation of a department specifically charged with the subject, and the establishment of an energy consumption reduction goal in all companies. With these initiatives, we intend to reduce power consumption by 30% in all telecommunication networks (measured in kilowatt-hour per equivalent terminal) and by 10% in offices (in KWh per employee) by 2015. That will allow for a significant greenhouse effect gas emission reduction by Telefónica at a global level.

The Office of Climate Change, led by the Transformation Directorship and the General Technical Secretary to the Presidency, is Telefónica's body responsible for ensuring the reduction of energy consumption and GHG emission within the conglomerate's activities, empowering the development of more efficient services for clients and other markets, and positioning the ICT sector as the center of the fight against climate change.

In 2010, Telefónica conducted the first Global Workshop in Energy and Climate Change in Madrid, dedicated to sharing best practices on energy conservation and efficiency. During the event, a 14% energy consumption reduction was announced for the telecommunication networks since 2007, for the entire company, indicating that we are on the right path to the goal of a 30% reduction by 2015.

Energy efficiency

Telefónica's climate change program works on five operational axes: Operations, Suppliers, Employees, Clients and Society. This structure facilitates the implementation of initiatives, and naturally groups the strategies into institutional, operational and business. It also relies on a project office that coordinates, drives, facilitates and follows-up on the different actions taken.

Operations

Energy consumption for the operations is responsible for 87% of Telefónica's CO₂ emissions. During 2010, the company's operations department continued the implementation of energy consumption reduction measures.

The nature of the company's activities makes it a great consumer of electric power, which feeds the communication network equipment. In 2010, gross consumption reached 860,464,049 kWh. It is worth mentioning that the consumption relative to the number of terminals (lines, ADSL and TV) in service continues to show a decrease and reached 2.1 kWh/terminal in 2010, an 8.79% reduction relative to the consumption in 2007.

Of the total power used, 25% is acquired in the open market and therefore originates from renewable sources (biomass and small hydroelectric plants).

Besides continuing with actions such as the use of temperature sensors and use of external air to reduce consumption by air conditioning units (which represent 50% of the power used in operations), Telefónica also has several new experiments – including the use of solar power and an eco-roof to test the potential of these technologies in energy consumption reduction.

Suppliers

This axis has the objective of implementing policies and procedures that include energy efficiency and low carbon emission criteria in purchases made by Telefónica. In 2010 the global supplier selection process started taking into account power consumption. Therefore, the power consumption variable was included in the TCO (Total Cost of Ownership) analysis.

Our Climate Change program consists of five action axis: Operations, Suppliers, Employees, Clients and Society

We try to provide products and services that allow for individual reduction in greenhouse gas emissions

Employees

This axis has the main objective of reducing power consumption in the daily activities of direct employees (measured in kilowatt-hour per employee) and disseminating climate change information to our professionals. Telefónica has been working to reduce business meeting trips. To that end, it established the first telepresence room in Brazil, installed in 2009 at the company's headquarters. Telepresence realistically simulates a meeting and the participants have the feeling they are sitting at the same table. This room and other video-conference rooms were widely used in 2010.

Clients

Tries to provide products and services that reduce GHG emissions by each individual. For its direct implication to the organization's business, this axis is one of the most important in the Office of Climate Change. Telefónica worked with different business lines in 2010 to identify products and services that encourage low power consumption and carbon emissions.

These include, for example, telepresence and video-conferencing services (as mentioned in the Employee axis), which are used by the Group's companies and also provided to clients. A conservative estimate shows that these services can reduce business trips between 5% and 20%.

Shared gains



With the objective of seeking alternatives to further reduce energy consumption, Telefónica implemented a project in its energy efficiency program that gives a bonus to partner companies who conserve energy. This way, third-party technicians look for opportunities to save, such as equipment that can be shut down without compromising the company's service quality. This proposal is under analysis by a group of Telefónica engineers and, if approved, will be implemented. When a reduction in energy use is shown, the company shares part of this gain with the contractor, who gives half of the amount to its employees. The benefit is distributed to service providers every six months.

Society

Has the main objective of reinforcing Telefónica's public positioning as key to the mobilization around the subject and the fight against climate change. Also seeks to promote power efficiency in other sectors, and to promote low carbon emissions. In March 2010, Telefónica and Vivo again supported the "The Planet's Hour", organized by the WWF, and turned off the lights in their main buildings from 8:30 PM to 9:30 PM. During the Planet's Hour, people, companies, communities and government were invited to turn off the lights for an hour to show their support to fighting the effects of global warming.

2010 CO₂ emissions (in tons)*

Type	Telefónica SP	Vivo
Scope 1 (Direct)	2,878	3,639
Scope 2 (Indirect / electricity)	35,275	63,819
Scope 3 (Indirect / business trips)	2,420	9,200
Total	40,574	76,658

Telefónica SP 2010 energy consumption (in kWh)

	Operations	Offices	Total
Traditional electric power	687,965,908	506,665	688,472,573
Alternative energy*	171,864,810	126,666	171,991,476
Total	859,830,718	633,331	860,464,049

*Biomass and small hydroelectric plants

Greenhouse gas emissions

Since 2007, Telefónica has calculated greenhouse gas emissions from its fixed operations using an internal methodology based on the Greenhouse Gas Protocol and the environmental standard ISO 14064. With this methodology we can specifically determine the greenhouse gas emissions directly controlled by the company, called Scope 1; those derived from its activities, but generated by other organizations (electric power), called Scope 2; and, since 2008, the emissions associated to business travel and outsourced logistics, called Scope 3.

According to this calculation, in 2010 Telefónica SP recorded direct emissions of 2,878.37 tons of CO₂eq, improving its performance by 45% in comparison to the previous year. The improvement was possible due to a significant reduction in business trips by air, which compensated for the emissions derived from energy used in operations.

Vivo energy and climate change program

The Energy and Climate Change program developed by Vivo is in line with Telefónica's proposal. Since its creation, it has aimed at broadening and leveraging solutions related to the company's main target audiences – employees, suppliers, government, clients and consumers – which reduce and compensate for the greenhouse gas emissions. Based on this, three work fronts have been standardized:

- Corporate reductions, dedicated to optimizing use of resources and operational efficiency.
- Development of products and services that seek to provide technological mobile solutions to individuals and businesses.
- Mobilization of the industry and society around this subject.

Vivo works to quantify the environmental impact of the greenhouse gas emissions from its operations and units, to reduce, compensate and neutralize the emission of these pollutants. The major activities being controlled are:

Management of electric power

consumption – Seeking to optimize and build awareness for electricity use in the company's main administrative buildings, sales units and technical buildings. In 2010 a 23.7% reduction in energy use was recorded in offices, for a total of 633,331 kWh.

Control of black smoke at the GMGs – There is an annual Ringelmann scale monitoring of black smoke emanating from alternative fuel internal combustion engines, Diesel engines, direct or indirect fuel injection, turbo or non-turbo, and in any regular working condition in the group's generators.

New network construction – the networks department has been working towards perfecting Vivo's telecommunication infrastructure. Of note in this effort are measures like the use of fluorescent-based paint on the walls of technical buildings and Base Radio Stations (ERBs)

Energy consumption in operations is one of the major focal points and has been dropping each year

Época's Climate Change Award

Época's Climate Change Award

For the third consecutive year, Telefónica was among the top 10 leading companies in the Época Climate Change Award, by Época magazine (published by Globo) with technical support from consulting firm PricewaterhouseCoopers, who developed the questionnaire. The award highlights initiatives by companies that have environmental policies to reduce greenhouse gas emissions. The 400 largest companies and 15 largest banks

operating in Brazil are invited to answer a questionnaire about their strategies to fight climate change and reduce CO₂ emissions. The winner selection is done by a jury of experts, including representatives from USP, FGV, the World Bank, and other entities.

Telefónica is the only company in the industry to be included among the leaders in the three years the survey has been conducted. This is due to the performance and publication of a greenhouse gas inventory, the company's strategy to address climate changes and to the initiatives in energy efficiency implemented in operations.

Digital inclusion

The use of ICT transforms the existence of distant cities, as is the case of Belterra, in the Amazon, a finalist in the Global Mobile Awards 2011 for the best use of mobiles in social-economic development

Besides Belterra, where education, health and work were empowered, the arrival of mobile telephone service allowed fishermen to better control oyster production, generating more profits, by using integrated mobile software

Telefónica seeks to contribute to a more inclusive society through Information and Communication Technology (ICT), both in its products and services and in alliances with government institutions. We believe that by promoting access to ICT, we contribute to building a more fair country. In that sense, we operate in several fronts to encourage digital inclusion.

A good example of the potential of social initiatives in telecommunications is in Belterra. This small town of a little more than 16 thousand inhabitants, located in western Pará state, in the middle of the Amazon, has seen radical transformations thanks to Vivo's actions. The company's first antenna was installed in November 2009 and since then its capacity has been amplified three-fold. Today it generates three times more revenue than the average Vivo antenna, a fact that demonstrates the raw demand there was in the location.

The arrival of the network improved the lives in the riverside communities and brought a surprising development to the region, which was confirmed through surveys by Pará Federal University and the Integrated Universities of Tapajós. According to them, 90% of the people believe that mobile phones improved their daily lives and 53% figure that it

contributes to the creation of companies and jobs; moreover, 43% of students already use the internet for research and 20% of them are enrolled in distance classes.

Examples such as this are scattered in other corners of Brazil, such as in Guaribas, state of Piauí, a municipality that has come to symbolize the Zero-Hunger social program. Another case is Guaiú, a community in Santa Cruz Cabália, on the coast of Bahia: there the Vivo 3G signal allows fishermen to use a software that is connected to a mobile device to insert information about water temperature, salinity level and size of the oysters, calculating in real time when the economic break-even is reached for a day's work. This allows for greater control and sustainability in their activity. The same software provides remote technical assistance with fishing engineers for the project and puts the fisherman in direct contact with his customers through a commodity exchange.

Broadband for low income populations

In meeting the terms of São Paulo state government's Affordable Broadband Program, in 2010 Telefónica started using different technologies in its data networks to provide broadband internet to a low income population. One of the modes provided is the pre-paid wireless service that allows users to purchase



Network and infrastructure development

In January 2010, we adopted several emergency actions to reestablish landline telephone service to government bodies and essential services in São Luís do Paraitinga. At the time, this city in São Paulo had been hit by rains that caused flooding and damaged several buildings, including the main telephone station, with complete loss of equipment and interruption of services to the 1000 lines that served the city.

From the very start of the problem, Telefônica mobilized its teams and made them available

to city hall and the Civil Defense department to take emergency action while the phone service was not restored. The operation involved about 150 people, including Telefônica employees and third party companies. At the end of the work, cables were replaced and 100% of the clients had their service restored.

Vivo also started work on quickly restoring mobile service in the affected region soon after the flooding started. Ten pre-paid mobile phones were distributed for use by city authorities and direct assistants, and to civil defense personnel.

Through wimesh technology, we started providing broadband at affordable prices for low income populations in the state of São Paulo

credit in small neighborhood retail shops and at the online store <http://www.minhabandalarga.com.br>. Users can choose a refill of R\$ 1.90 for two days of internet use, or purchase a R\$ 29.80 refill for 31 days of internet browsing. At the start of 2011 we implemented an intermediary six day refill for R\$ 5.70.

This pre-paid wireless mode is available through wifi /Wimesh technology (speed of 500 kbps) for residential buildings in the ABC region and in the Cidade Tiradentes neighborhood, in the eastern region of the city of São Paulo. It meets the special needs of an audience taking its first steps in internet access and using the technology, mainly to send and receive e-mails, do online research, access social networks and other applications. By the end of 2010, 52 thousand homes and about 200 thousand people were covered by the service. And by July 2011, we will expand the service to other neighborhoods in the São Paulo capital, for a total of 70 thousand homes.

At the end of the year the service started being offered with ADSL technology (250 Kbps) and by June 2011 it had 15 thousand clients in the state of São Paulo.

Moreover, in compliance with the Presidential decree published in April 2008 that changed the terms of the General Goal Plan for

Universalization (PGMU) of the Commuted Landline Service (STFC), Telefônica SP is committed to bringing broadband access to all urban public schools located in its region of concession, including municipal, state and federal teaching institutions, as well as open universities and schools participating in the One Computer per Student Project. Access will be free for the entire period of STFC concession, until 2025. By the end of 2010 we were serving over 6,900 schools; we forecast extending service to an additional 3,900 teaching institutions in 2011.

Information station

Telefônica provides small and medium businesses an Information Station at a reduced monthly cost. The service offers access to a computer, broadband and professional maintenance, which makes it even more attractive to this audience, because of the high initial investment in equipment. Moreover, in amplifying the controlled line portfolio, at the end of 2010 we launched a service plan that, among other benefits, allows users to place free calls from any public phone to their homes, when both are within the same city. For the fixed amount of R\$ 54.90 per month, the user can also make unlimited calls to Telefônica network phones, for local calls, and have unlimited dial-up internet browsing, any time and day, using registered providers.



Accessibility

We make constant investments to ensure access to our services, both landline and mobile, in all regions where we are present, and with differentiated solutions for all types of clients

Besides special technologies and products, the social inclusion of people with disabilities counts on special actions for sports and cultural involvement, such as Vivo Rowing and accessible programming for the visually and physically impaired at the Vivo Theater

Telefónica's commitment to encouraging digital inclusion naturally involves accessibility. To that end, since the second phase of the Universalization of Telecommunication Services in 2005, we have responded to telephone line installation requests in up to seven days, and made individual access available at locations with a population larger than 300 people. In 2010 we contributed R\$ 128,998,898.20 to the Universalization of Telecommunication Services Fund. This year, 2,420 locations were provided with landline service and public phones, while 597 had only public phones. Broadband service was available in 622 municipalities in the Telefónica SP concession area (100% of cities).

The state of São Paulo has one of the highest public telephone densities in the world, with 250,566 units installed. All locations in São Paulo with over 100 residents have at least one of these phones. In urban areas of the state, public phones are available at most 300 meters from each other.

Of the public phones located in the state of São Paulo, 9,375 are adapted for wheelchair use (a 25% increase over 2009) and 3,414 are adapted for the hearing impaired, with service provided by the Deaf-Hearing Intermediation Service (Siso). In 2010 all public phones in the state were adapted with a audible warning for the visually impaired. The investment in adapted public phones totaled R\$ 1.4 million, responding to user requests and especially those from associations representing the physically disabled.

Vivo's products for the hearing impaired include the Vivo Plus Messages Plan that provides text message packages for the hearing impaired. Moreover, in 2010 the company launched the SMS Customer Service - a free, 24 hour a day, seven day a week service - as a practical, accessible and inclusive way of providing service.

Vivo remains committed to the inclusion of the disabled people in other fronts. One is the Vivo Rowing project, which has the objective of training youths with physical disabilities in

this sport. The idea is to form a professional competitive team that will represent Vivo in championships in the category, in the Parapan American Games of 2011, and the Paralympics in 2012. With this objective, our adapted rowing team has grown from 15 to 30 athletes.

Access to culture is also valued, as exemplified by the audio-description for the visually impaired at the Vivo Theater in São Paulo. In Rio Grande do Sul, 25 volunteers were trained to provide the service in 2010, including Vivo employees, reporters and a movie producer.

These courses have been offered in São Paulo since 2006, with the participation of Vivo employees, the São Paulo Cultural Center and Laramara. In 2009, in Manaus, it also had the participation of employees from the Office of the Secretary of Culture, the Amazonas Theater and the Braille Library. The Vivo Theater also has translation into Brazilian Sign Language for the hearing impaired. The company also supports the Fernanda Bianchini Ballet for the Blind, which provides free ballet classes to the visually impaired.

Customer service in rural areas

In 2010, Telefónica's offer of service in rural areas increased by 3.7% relative to the previous year, from 54,878 to 56,933 accesses. It was a higher growth than recorded for landlines in urban areas. Of this total 11,731 were RuralCel devices using digital mobile technology (CDMA). Provided through the Vivo platform, they started being manufactured by ZTE, in a partnership that makes line installation possible at an average price close to R\$ 1,000.00, or 40% lower than before.

In rural customer service, with the use of metallic network or single-channel radio, there were 45,472 accesses. Such services are provided under the guidelines of Anatel Resolution 426, which proposes charging projects for network expansion in order to provide individual or collective customer services (lots or condominiums).

Door to Door program

Today Telefônica is the best prepared company to meet the demands of low income audiences, the fastest growing social class in the country. Precursors to the offer of the pre-paid affordable lines (Economy Line, a pioneer for this model in Brazil, started in 2004); in 2010 we started providing the Door to Door program. This door-to-door sales program of products and services uses sales teams recruited from within the neighborhoods where they sell. Today, there are a thousand salespeople working in the state of São Paulo, and the number will be increased in 2011.

Talk and browse with a public phone bonus

At the end of 2010, Telefônica launched a plan that, along with other benefits, allows users to call home for free from any public phone in their city of residence. For the fixed amount of R\$ 54.90 per month, users can also make unlimited local calls to phones on the Telefônica network and have unlimited dial-up internet browsing, any time and any day, by using registered providers.

Vivo On

Launched in July 2010, Vivo On is a promotion conceived for young clients who appreciate the different methods of connecting to their network of contacts,

using not only phone calls but also SMS, e-mail and social networks. The offer include a bonus for unlimited SMS, free access to social networks, e-mails via mobile and a calling bonus. It is the best and most affordable connection plan in the market: a R\$ 25.00 refill, for example, gives the pre-paid client unlimited SMS sending to another Vivo On customers and another 200 messages within the Vivo network, with free access to social networks and e-mail. Moreover, clients get a R\$ 450.00 bonus in local calls to other Vivo On phones and can use up to half of the bonus talking to any Vivo client.

Vivo Network Education

This platform for connecting people on networks helps them explore, propose and test new educational processes in a networked society. It was created in December 2008 with the objective of preparing the seminar "The Networked Society and Education", which was held in March of the following year, and since then has become an interactive netweaving tool (articulation and animation), connecting people to discuss and jointly create learning projects. Today the network has 3,505 users. Participants have already created 54 groups to discuss and develop projects and have shared and commented on over 600 texts and submitted 450 videos. The address is: <http://vivoeduca.ning.com/>

Economic lines provide at affordable prices and promotions that allow emerging classes to enjoy the benefits of using ICT



A high-angle, rear-view photograph of a rowing team in a long, narrow boat on a body of water. The rowers are wearing yellow and white tank tops. The water is dark and choppy, with white foam from the oars visible. A semi-transparent white rectangular box is overlaid on the right side of the image, containing the chapter title and page number.

04 STAKEHOLDER ENGAGEMENT

1 Dialog 2.0

| 31

Open contact with key audiences allowed for effectively addressing problems and improving services, increasing our clients' satisfaction

Telefónica appreciates and encourages dialog with its relationship audiences, viewing this practice as an important way to strengthen relationships, improve risk management and increase its response capability in all operations. The combined results of these interactions are brought to the directing committee where the actions are prioritized and delegated to the departments responsible.

The considerable number of people who went directly to the National Telecommunications Agency (Anatel) to register complaints about Telefónica led us to implement a project that sought to understand the situation and take actions to regain the trust of these clients, avoiding new complaints to the regulatory agency. Based on this outlook, in May 2010 we took a sample of clients in three mini groups, each with six people, to understand the main reasons for their complaints, their suggested improvements and the impact of Telefónica's corrective actions on their perceptions.

The most common problems presented were not meeting established times, broadband service instability, billing questions, unavailability of products and services and inadequate repairs.

The opportunity for these clients to speak their minds was considered very positive. We communicated the information to the relevant company departments - like quality; the results of the emphasis on this dialog resulted in improved client attention - which, along with other quality initiatives implemented throughout the organization, led to an excellent client satisfaction index by the end of the year.

Network building – Vivo Sustainable Multiconnection

Vivo relies on a platform to disseminate sustainability content – the SerVivo Program, started in November 2010 with the seminar Networked Society and Sustainability, and launched for all employees on February 2011. The platform shows how we are building our history seeking trusting relationships and sustainable links, in addition to the sustainability-related projects, actions

and initiatives we develop. The program includes a website and the Vivo Sustainability Network, an open social network to exchange information, ideas and practices on the subject.

Another noteworthy initiative that took place from August 2009 to June 2010 was the Vivo Sustainable Multiconnection project, which had the objective of building the company's Sustainability Policy - in network with Vivo Ecosystems - and mobilizing employees to understand and practice Vivo Sustainability values. All employees had the opportunity to participate in the process by telling what sustainability meant to them in their personal and professional lives and for Vivo. An innovative way of thinking, materialized in a collective document that everyone helped create.

Dialog 2.0

In 2010, one of the means used by Telefónica to invest in its relationship with clients was social networks, using the profiles Telefónica Online and Telefónica Help. The first is about the relationship of the Telefónica brand with internet users, such as publicizing products and services, promoting drawings, cultural contests and other events. The second is entirely directed at helping internet users address complaints and problems with the company's products and services, directing them to official channels and call centers responsible for the service (back-office).

Vivo amplified its online actions as well, reinforcing the use of social networks and channels like the Vivo Blog. It also launched its own platforms with continuously updated exclusive content and actions that encourage the interaction between the company and its clients.

Focusing on the social network actions, Telefónica and Vivo organized the Campus Party Brazil in January 2011: a meeting between executives from both companies and a group of bloggers. The event had the objective on introducing the improvements implemented by Telefónica and evaluating suggestions to enhance our services and products.

Transparent communication

We understand that our professionals are the most important element in building a transparent company. We therefore use our internal communication channels as the main method of conveying information, even before it is available to external audiences. In 2010, this strategy was also used with the purchase of Vivo, when all employees were updated regularly about the company's restructuring process.

The internet was an essential tool in this process. The main method of conveying information internally was further perfected, becoming more dynamic in its new blog format, with news items over the day and more resources for a 2.0 dialog with employees, who can participate in online surveys with subjects related to Telefónica's strategy and business.





05

BUILDING SUSTAINABLE RELATIONSHIPS

- | | |
|--|----|
| 1 With our clients | 33 |
| 2 With our professionals | 36 |
| 3 With our suppliers | 38 |
| 4 With our shareholders
and investors | 39 |
| 5 With our community | 40 |

With our clients

Our efforts are aimed at delivering quality services and building a consistent relationship with our clients

Evolution in client numbers

In 2010 Telefónica recorded the largest increase in the number of broadband internet clients in its history. There were 680 thousand new consumers for a total of 3.3 million in the state of São Paulo. In comparison with the previous year, the client base increase for Speedy was 26%. There was also an increase in the number of landlines in service, reversing the downward trend seen internationally in large telecommunication companies. We closed 2010 with 11,296 million landline clients, with 39 thousand net additions over the year.

Vivo also had a significant increase in the number of clients in 2010: from 51,744,426 consumers in December 31, 2009, the number jumped to 60,292,511 a year later, a 16.5% increase. At the end of 2010, the network covered 3,646 municipalities with WCDMA, GSM/EDGE, CDMA and TDMA digital technologies. This is equivalent to 65.52% of the total number of municipalities in Brazil, and to reaching 90.16% of the country's population.

Invoicing

An additional piece of good news in 2010 was the reduction in the percentage of complaints over invoices, which dropped by 52% to 1,167,977 instances. This reduction is

explained by a series of initiatives developed over the year aimed at improving the quality of invoicing services and changing the company's image for the client. Of special note were the action strategy developed to analyze the main focus of complaints and the restructuring of the end-to-end sales and client relationship processes. A billing issues resolution island was created and there 98% of the problems raised by clients started being immediately resolved, without the need for a second call or forwarding the matter to other departments.

Changes in the phone bill

In order to make the bill clearer and reduce the number of complaints and unnecessary calls to customer service, in December 2010 Telefónica implemented important improvements to the content of its telephone bills. The changes included information about Speedy, which before were presented separately and now information such as credits and debits for the product are grouped. Since the end of 2009, Vivo has made the information available online, including options for filters and graphics for managing and monitoring consumption, comparisons for the last six months and selection of the name or group to query. The registration data of names and groups is automatically synchronized, via the Phones on the Account function, online.

Increase in the number of clients for Telefónica and Vivo and a reduction in cancellations (churn) demonstrate the success of our initiatives for continuous improvement

Online bill

In July 2010, Telefónica implemented the My Bill project to provide a space for clients to understand the content of phone bills and allow them to manage their account online. By joining the service, clients opt for not receiving a printed bill, which contributes to environmental preservation. At the end of 2010, we had surpassed the goal of 8,900 registrations by 171%, with a total of 15,239 clients registered. For 2011, we intend to reach 670 thousand clients registered, reducing mailing costs by R\$ 617 thousand, and also to extend the service to corporate and TV customers.

Along the same lines, Vivo performed several incentive actions (via SMS and text) for bill migration from paper to electronic and online. To view the electronic bill, an easy to install application is provided so clients can download the file and query it on their own computers.

During 2010 there were several actions encouraging voluntary migration and implementing compulsory migration from paper statements to online (with only the payment slip being sent by mail). At the end of the year there were campaigns aimed at clients with auto-pay to also stop receiving the printed payment slip.

Our initiatives to ensure quality in all consumer contact fronts led to the best client satisfaction index ever recorded

Client satisfaction

The sum of all efforts toward ensuring quality for the consumer earned Telefônica its best client satisfaction index ever: 6.67 in a universe of 15,368 interviews. The drop in the number of complaints to Procon was another important indication of improvement. The results obtained are even more noteworthy when we consider that these are the best numbers since complaint statistics started being recorded in 1999.

These results are closely related to the systematic improvement work done in 2010, which covered everything from the sales experience to answering questions and solving problems through the 10315 Customer Service Center, to stores and social networks. Our main actions in this area include the transformation of the Customer Service Center, with an investment of R\$66 million in 2010 alone.

Apart from system and process improvements, all professionals underwent an extensive training program to enable them to better address client needs with a single call. This resulted in the number of calls dropping by about 60%, from an average of 6.5 million in the first quarter of 2009 to an average of 2.8 million in the last quarter of 2010, even considering the increase in client base in the period.

In conjunction to the improvements to 10315, we started investing in other relationship channels, including in-person and social networks. From the second half of 2010, we opened 17 in-person customer service points in several cities in the state of São Paulo, refurbished 18 others and improved the infrastructure in an additional 40, with investments of R\$ 11 million. The company provides customer service in some units of Poupatempo (state and municipal public service centers) in order to further extend the range of services available to clients.

In social networks, after we determined the best way to interact with internet users, we developed mechanisms to dialog and solve problems raised online by clients. Moreover, today clients can make any type of request over the portal www.telefonica.com.br.

In 2010, Vivo expanded its sales channels in the customer service centers, with personalized offers. Moreover, the company successfully implemented customer service centers using new channels like SMS, chat, e-mail and the web. A call management tool was implemented that allows for intelligent distribution to the most suitable agent or channel. In this project, own stores were involved and now handle receptive calls in valley periods, bringing the regional clients' needs closer to the business strategy at each of the country's regions.

Monthly evolution of complaints to Procon-SP and Anatel 2009-2010 – Telefônica SP

2009 indicators	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Anatel (in thousands)	28.3	34.6	38.6	36.2	35.5	32.8	26.3	20.9	21.3	18.2	16.2	13
Procon-SP	3	2.4	2.9	2.9	2.7	2.5	2	1.5	1.2	0.9	0.6	0.6
2010 indicators	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Anatel (in thousands)	22.9	23.7	23.7	19.9	19.3	19	18.3	18.0	19.2	20.1	18.2	22.3
Procon-SP	0.6	0.6	0.6	0.8	0.8	0.7	0.7	0.7	0.5	0.4	0.5	0.5

Ombudsman

The Client Defense Service, Telefónica's Ombudsman's office, registered 149,575 incidences in 2010, of which 86% were resolved in 5 working days or less, thanks to the team's great efforts in collaboration with other departments.

Anatel's Customer Service Performance Index (IDA), which accounts for the service provider's ability to address requests within five days, reduce the number complaints, reduce pending issues and avoid reoccurrences, gave Vivo the best performance among the four major companies in the market, with an average score of 98.172.

New products and services

At the start of 2010, Telefónica implemented a new governance model for the Products and Promotions Approval Committee. The initiative reinforces the formalization and alignment between the departments and monitors higher client impact actions at the launch of new products, promotions and other sales actions. The system anticipates the evaluation of actions and centralizes the history of proposal approvals and restrictions, using several control reports that make quality management possible. Among the launches in 2010 is on video, a convergence service that is unique in Brazil and allows users to access video content, with over 2 thousand titles available, including movies, series and documentaries, as well as have access to online content on the TV set – such as the content on the Terra TV portal. The service also provides a useful information portal, updated by the minute with information like weather, sports and news.

Another highlight is the provision of differentiated services to increase Speedy broadband client loyalty, prioritizing online security services (antivirus, firewall, IT support and blocking of content inappropriate for children and teens) and access to educational and entertainment content, free of charge, as well as the mobility provided by Speedy Wi-Fi hotspots.

Vivo Innovations

In 2010 Vivo continued with the implementation of the GSM/EDGE network in its entire coverage area. In December 2010, there were 645 municipalities covered in São Paulo, 402 in Rio Grande do Sul, 461 in Paraná and Santa Catarina, 170 in Rio de Janeiro and Espírito Santo, 310 in Bahia and Sergipe, 610 in Minas Gerais, 376 in the Northeastern region and 672 in the Midwest and Northern region, for a total of 6,646 municipalities covered by this technology.

In December 2010 the WCDMA network served 1,206 municipalities. Of those, 231 are in São Paulo, 155 in Rio Grande do Sul, 137 in Paraná and Santa Catarina, 124 in Rio de Janeiro and Espírito Santo, 43 in Bahia and Sergipe, 90 in Minas Gerais, 268 in the Northeastern region and 158 in the Midwest and Northern regions.

During the year we amplified our coverage capability for the GSM/EDGE and WCDMA networks, to absorb the increase in voice and data traffic. At the same time we ensured excellent results according to Anatel's network indicators.

Another new development this area was the purchase, in an auction by Anatel in December, of 23 lots of bands in the 900MHz and 1,800 MHz ("2G leftover") frequencies, which will allow us to overcome the spectrum gap we had in comparison to the competition. In some locations, even with about 60% less spectrum than other operators, we ensured a high quality service thanks to the efficient management of our network. Operating in the new bands will increase our ability to provide service in the entire country. Moreover, the lots acquired will allow us to free up the 1.9Mhz frequencies that we use today for 2G, increasing the spectrum for 3G, which gives us flexibility to continue growing with high quality voice and data services.

The attention to clients includes offering multiple customer service channels and launching innovative products and exclusive offers

With our professionals

Team unity and recognition of each member's role in building an ever better company ensure *bravo!*'s success, a global program that revolutionized our corporate culture

Appreciation of talents and opportunities for professional development ensure a broad vision of the Group and the ability to overcome our major challenges

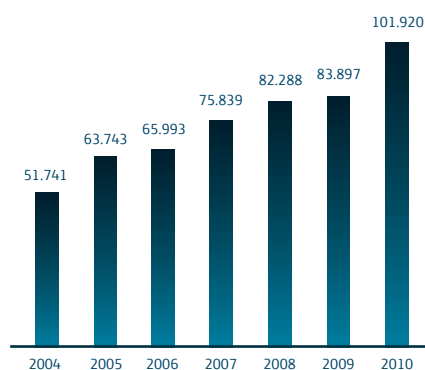
For Telefónica, 2010 was a year marked by great improvements and achievements, which would not have been possible without the contribution of our professionals.

One team

Showing significant unity and making use of attitudes based on real experience, our employees were able to transform good ideas into reality, reaching common goals and contributing to the company and to society.

Such attitudes were sculpted by the Live the Experience program, developed globally by Telefónica as a communication platform with all company employees. Its main message is the importance of teamwork and the reinforcement of the major role each employee plays in transforming the company into a better place to work.

Evolution of employee numbers 2004-2010



* Until 2009 we considered 50% of Vivo's employees in the Group's total employee numbers.

Satisfaction

As a result of the collaboration and commitment between the departments and the great year Telefónica had, the Climate Survey for 2010 showed a record favorable opinion among employees: 81%, an increase of three percentage points in comparison to the previous year.

Vivo also had reason to celebrate. In 2010, the satisfaction index reached 8.52 and the Employee Satisfaction Survey had a result of 88.56%. These indices reflect the commitment of employees with keeping an excellent internal environment.

With the success of the actions in 2010 there was also great unity among the teams that worked in matters associated with the *bravo!* program, which aims at a greater objective: client satisfaction. *Bravo!* is the first global transformation program that involves the entire Group. It allowed us to advance towards common objectives set for 2012 based on four strategic pillars: Client, Offer, Platforms and Culture.

The collaboration between departments can be recognized by the Well Done! electronic seal. With it, employees can thank those who are always willing to do teamwork and are committed to common objectives. Each professional periodically receives (in cycles) five seals to give away, issued online at (www.mandoubemtelefonica.com.br), along with a personal message. In 2010, 36,427 seals were awarded.

Telefónica work environment climate 2008-2010 (%)

	2010	2009	2008
Telefónica SP	81	78	74
Vivo	85	82	80
Atento	72	61	70

Atento Academy

Atento believes that its greatest power comes from its talents; it therefore invests in programs to encourage the development of its professionals, telephone operators and executives. This process is coordinated by the Atento Academy, which has offered about 230 thousand hours of courses since its creation. The courses provided aim at developing each employee's skills, with a focus on the company's strategy, as well as preparing those employees with potential to take on new responsibilities.

Our professionals

We are committed to providing our professionals the best place to work and to creating personal growth opportunities, with the objective of attracting and retaining talent. This effort seeks to make the entire Telefónica conglomerate an entity that can be completely trusted by employees.

Talent creation and management

For Telefónica and Vivo, managing talent implies placing the most talented people in situations where there is the most challenge. In this context, the movement of professionals (through internal and external rotation), promotions and filling open positions with internal talent are key processes to provide employees a more global view of the company. Telefónica has internal recruiting programs in which any employee with at least 11 months in the same position (job, department and salary range)—or 6 months, in the case of interns – may sign up and apply for jobs in other departments of the Group. The open positions are communicated weekly to all employees through an online bulletin board *Gente em Movimento* (People on the Move). In 2010, 938 positions were filled with professionals from within the company's workforce. Vivo's Internal Opportunities Program provides employees, interns and contractors access to all existing career opportunities. In 2010 there were 9,190 moves using this tool.

Another program of note, to which both Vivo and Telefónica employees have access, is the International Rotation. It provides

upper echelon employees an exchange program between operators in Latin America and Spain, in order to provide professional growth to participants and implement best practices through exchanging experiences. This initiative, a differentiating factor for Telefónica, provides international experience in large scale projects and drives individual expertise. Professionals who have been with the company for at least one year and have high performance results can submit their resumes for application and interview with the project sponsor.

Corporate University

Vivo's Corporate University model structures the company's educational solutions and programs and the learning environments, focusing on developing the human and corporate skills necessary to implement business strategy. Its goal is to publicize the training and development opportunities with transparency and accessibility to all employees, as well as create the conditions for a culture of continuous education based on sharing knowledge among employees. The Corporate University is structured in four schools, in which the training and development programs are inserted: Leadership School, Business Management School, Client School and Technology School.

Establishing close leaders

Telefónica understands that those responsible for managing teams are essential to developing the company's strategy and that their performance has a large impact on improving the satisfaction of our employees. Therefore, in the last few years, the preparation of leaders has gained importance in the training processes performed by the Group.

As a way to ensure the management of Telefónica's talents, in 2008 the Leadership Development Program (LDP) was created with the objective of broadening the actions of the leaders with focus on people management and innovation. The program was extended in 2010 to coordinators – professionals in non-executive positions who manage teams. The program encourages the adoption of new behavioral standards and more productive

impacts in relationships and business, seeking to encourage the construction of a community of leaders based on competence through training and performance. In 2010 there were 172 executives (directors, managers and coordinators) participating in the program. The Vivo Leadership Development Program was developed for similar purposes as its Telefónica counterpart. It is open to directors and division managers and relies on a partnership with the Dom Cabral Foundation.

Social dialog

Telefónica has a code of conduct signed with the Union Network International (UNI), in which it is committed to maintaining union and labor rights in all operations, ensuring the conglomerate's workers protection regardless of the country where they work. We had negotiations with the Union of Telecommunication Workers (Sintetel) and with the São Paulo State Engineers Union. Besides the salary adjustment for workers, the unions are called in to discuss all situations that affect employees, working conditions, hours and participation in the company's profits and results (PLR).

Vivo negotiates with telecommunication employee state unions. Similar to what Telefónica has done over the years, the company has cultivated a fluent and productive relationship with unions. At the end of 2010, 5,988 Telefónica SP employees had union affiliations. At Vivo, all 13,419 employees are affiliated to unions.

With our suppliers

Transparency, competition and equal opportunities are the basis for hiring and for the relationship with our suppliers

Priority to local providers attests to the value we give our partners in the countries where we operate

Telefónica is concerned in offering equal opportunities to all suppliers and acts according to the current laws and regulations of the countries where it operates. For that reason, we developed a purchasing model for all our operations around the world, based on:

- Competitive and equal opportunities.
- Transparency in processes and decision making.
- Objectivity and unanimity in decision making.
- Services geared towards clients, internal and external.
- Mutual fulfillment of commitments with suppliers.

This purchasing model is based on the principles of transparency, competition and equal opportunities. It is promoted and fomented through the use of the following mechanisms:

- **Purchasing Desks** – On these the purchases are presented with participation from all affected areas. The decisions are reached unanimously. Currently there are ten purchasing desks in the world, two of which are in Brazil (in São Paulo and Rio de Janeiro).
- **Electronic commerce tools** – All transactions are recorded in the system and each supplier is responsible for uploading his bid.
- **Standards and procedures** – May be general or specific.
- **Supplier catalog** – Common to all companies in the Group.

Supplier profiles

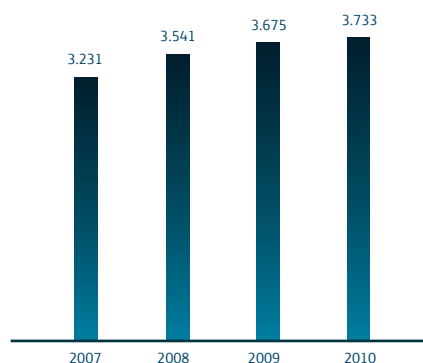
The volume of purchases made in 2010 by Telefónica in Brazil was approximately R\$ 15.7 billion, an increase of about 45.3% from 2009. This volume of purchases was made from 3,733 suppliers, a 1% increase from the previous year.

Telefónica is committed with economic and social progress in the countries where it operates. In Brazil, this commitment can be seen in the high volumes of purchases granted to suppliers within the country. In 2010, 97.9% of the total purchase volume was granted to local suppliers that generate jobs and pay taxes in Brazil. In terms of supplier numbers, local suppliers this year represent about 97.9% of the total. We work with all types of suppliers. Some are multinational companies as large as Telefónica itself, but most are small and medium businesses. This explains the high number of suppliers that work with us without having a large business volume.

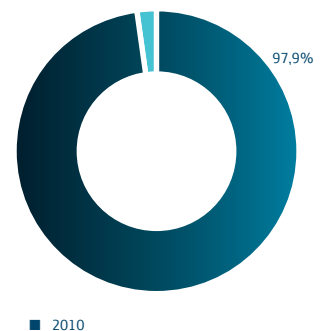
Impact of Telefónica's activities

For Telefónica, its reputation and success are directly linked to the behavior and performance of its suppliers, who are frequently responsible for the direct contact between the company and its clients and society. The fundamental importance of this relationship makes it one of the points to which we dedicate particular attention in our quest for continuous improvement, always guided by the company's Business Principles.

Contracted Suppliers 2007-2010



Volume of local purchases



With our shareholders and investors

Commitment to creating value and transparent practices ensure our responsibility before shareholders and investors

For Telefônica, it is as important to create value for investors as it is to provide them with all the relevant information to facilitate decision making and reduce uncertainties. To this end, we have internal standards and policies to always make our practices clear and objective, and make relevant information available in an online portal with versions in Portuguese and English (<http://www15.telefonica.com.br/investidores/> and <http://www15.telefonica.com.br/investidores/english/>, respectively). All communications, relevant facts and accounting statements are filed with the regulatory bodies in Brazil, through the CVM (Comissão de Valores Mobiliários), and in the US through the SEC (Securities Exchange Commission). Also, the company has an Investor Relations team to answer any questions over the phone or through personal meetings, when requested.

At the end of 2010, Telecomunicações de São Paulo S.A. - Telesp had 1,869,828 shareholders, and there were 13,654 shareholders with Brazilian Stock Receipts (BDRs). Telesp shares are also traded on the New York Stock Exchange (NYSE), through American Deposit Receipts (ADRs).

The company has common shares (ON) and preferred shares (PN) traded in the São Paulo Stock Exchange (Bovespa) and ADRs negotiated at the NYSE. In 2010, the average daily value of the common and preferred Telesp shares was R\$ 758.3 thousand and R\$ 4,902 thousand, respectively; the ADRs were US\$ 2,685.1 thousand.

At the end of 2010, Telefônica Internacional S.A. (TISA) had 34.87% of the common

shares and 80.53% of preferred shares of the company; SP Telecomunicações Holding Ltda., 50.71% of common shares and 8.61% of preferred shares.

The year of 2010 was filled with challenges and achievements for Telesp, which also underwent significant structural changes, with the conclusion of the Vivo purchase, the main mobile operator in the country. In an Extraordinary General Assembly held in April 27, 2011, the operation was approved to substitute and incorporate 100% of the total Vivo Part. capital, according to the partnership restructuring mentioned in the Relevant Fact dated December 27, 2010 and on the terms of the Incorporation Protocol dated March 25, 2011. The transaction had the objective of unifying the shareholder base of the companies, rationalizing the cost structure and helping integrate the businesses, generating subsequent synergies.

According to item 4.2 of the Incorporation Protocol, the Vivo Part. shareholders received, in substitution for the shares they owned to date of Vivo Part., new shares issued by Telesp, of the same type as the Vivo Part. shares held. The approved schedule of shares substitution was that for each common and preferred share of Vivo Part., 1.55 new Telesp shares of the same kind were issued. This way there were 619,364,658 shares issued (212,767,241 common shares and 406,597,417 preferred shares) in payment of 100% of Vivo Part.

The total fair amount of the shares issued is R\$ 31.2 billion, calculated based on Vivo Part.'s economic value in December 31, 2010.

Administration Council

The Telesp Administration Council has at least 5 and at most 17 members, who serve three year terms. Currently, there are 17 members, whose terms started at the 2010 Ordinary General Assembly. Re-election is permitted. The Council comprises shareholders only; one of them is elected by the votes of preferred shareholders, in separate vote, and the others by general vote by common stockholders.

Over 2010, the Administration Council had 9 meetings; in 2011, up until 07/26/2011, an additional 6 meetings. The deliberations at the meetings are on significant topics under their sphere of authority, which include:

- Payment of dividends and interests to the shareholders;
- Election of administrators;
- Approval of financial statements and the corporation's budget;
- Constitution of consortiums;
- Reorganization of incorporation.

Company executives are invited to make presentations at Council meetings on subjects relevant to the company's business. The make-up of Telesp's Administration Council, with the presence of non-executive, independent council members and members elected by the preferred shareholders, is in line with the generally accepted recommendations in matters of corporate governance.

At the Ordinary General Assembly of 2011, the global compensation of the administrators (Administration Council and company Directors) was fixed at R\$ 17,430,000.00. There is no direct correlation between that remuneration and the company's share prices in the market.

Number of shareholders

Year	Telefônica S.A. (BDRs)	Telesp
2006	14,864	1,913,643
2007	14,347	1,894,194
2008	14,024	1,880,805
2009	13,861	1,874,754
2010	13,654	1,869,828

With our community

Our commitment is to promote social development and build a more balanced future in all regions where we operate

Education and defending the rights of children and adolescents are the driving forces behind the actions of the Telefónica Foundation

Telefónica invests in social projects through the Telefónica Foundation, established in Brazil and 12 other Latin American countries. Its mission is to contribute to building the future in the regions where Telefónica provides services, encouraging social development based on education and protection of the rights of children and adolescents. We seek to achieve this preferably through the use of information technology tools.

The seriousness and strength of the programs developed by the Telefónica Foundation have earned it the respect of various governmental institutions, contributing to the improvement of public policies. Among the differentiating factors to achieve credibility in society, we note the selection of benchmark partners to develop projects in areas where the institution operates, and the continuous evaluation of results to improve the actions. The investments in social projects through the institution in 2010 totalled R\$ 25 million.

Currently the Telefónica Foundation develops activities along four axes: Pro-Menino, EducaRede, Telefónica Volunteers and Art and Technology. Through these initiatives, the Foundation acts in several project lines that involve from the promotion of ECA (the Child and Adolescent Statute) to the support for cultural projects and preservation of the history of the telephone in Brazil.

Among the programs developed by the Foundation, two deserve special mention: the Pro-Menino project seeks to contribute to social development and protection of the rights of children and adolescents through the support of projects to fight child labor and to support adolescents who have broken the law and are serving social-educational measures in conditional release programs; and the EducaRede project, which aims at enhancing the quality of public education through digital inclusion (read more about both programs on pg. 41). The Foundation also coordinates, in partnership with Telefónica SP, the Telefónica Volunteers program, which seeks to involve company professionals in volunteering actions (read more about it on pg. 42).

Another interesting initiative is the Art and Technology program, which promotes access by children and adolescents to the digital culture by supporting special research and production and dissemination projects. It comprises the Telefónica Memory Nucleus, dedicated to preserving the history of telecommunication. Its three-dimensional, photographic and document collection covers about 125 years and preserves over 100 thousand historic objects, and can be accessed through the portal www.museudotelefone.org.br. The exhibit "So far, so close", organized by the Program in São Paulo in 2010, received over 32 thousand visitors and won the Aberje Award in the "Corporate Memory" category.

Educating in the digital culture

In 2010, the program EducaRede, by the Telefónica Foundation, in partnership with the Santillana Foundation, created the Study Group Educating in the Digital Culture, with the aim of supporting educators interested in exchanging experiences about the challenges that technological innovations bring to the daily work of teaching and learning at school. It is supported by an interactive online teaching environment (moodle platform) that is offered free of charge and is especially designed to add value to the exchange and collaboration among participants. The space provides educators with bibliographic references, research sources

and various teaching materials. The group is represented by all states in the country and had 2,325 participants at the end of 2010.

To reproduce the creative atmosphere of traditional in-person study groups, the Study Group Educating in the Digital Culture relies on the collaboration of a team of expert moderators, who are responsible for promoting the study guidelines for the contents selected and encouraging debate and the exchange of experiences.

The group is organized in non-sequential subject modules and individuals can participate in one or more discussion topics. Participants have



free access to the environment, whether to meet colleagues, perform scheduled activities or evaluate their own learning through questionnaires provided.

Pro-Menino

One of the main initiatives by the Telefônica Foundation, this program follows international guidelines and goals and seeks to contribute to the social development and protection of the rights of children and adolescents.

It encompasses six lines of operation:

Fighting Child Labor – has the goal of contributing to eradicating child labor and securing the right of children to complete their education. This action directly benefited over 9.3 thousand children and adolescents in 2010.

Youths in conflict with the law – its objective is to broaden the quality of the services provided to adolescents who have broken the law and are serving social-educational measures in a conditional release program (supervised release and community services). In partnership with the Civic Councils for the Rights of Children and Adolescents, the Foundation currently supports 11 projects in São Paulo state.

Network of care for children and adolescents – contributes to financing projects that build social and electronic networks among the Civic Councils for the Rights of Children and Adolescents and the institutions that assist this audience in the municipalities.

Pro-Menino Portal (www.promenino.org.br)

– Launched in 2003, this portal provides subsidies so professionals who work in education can take action as defenders and promoters of the rights of youths and children in Brazil, based on the guidelines of the Child and Adolescent Statute (ECA). The portal receives about 200 thousand visitors each month and promotes the ECA Cases contest every year, to recognize stories of the application of the statute.

Telefônica Foundation Class – Developed in all Latin America by the Pro-Menino and EducaRede programs, this project has the objective of encouraging the use of information and communication technologies in education centers. The idea is to promote the improvement of the quality of education and help children stay in school and in after-school programs, in order to keep them away from child labor. In 2010, the project received a R\$ 2,100,000.00 investment and the donation of 400 educational laptops. It benefited 9,578 students and approximately 2 thousand teachers with online training, and was extended to an additional 15 schools, for a total of 36 schools served. In three years 21,666 students passed through the project.

EducaRede

Since 2002, the Telefônica Foundation has developed the EducaRede program in Brazil, dedicated to innovating education through ICT, promoting digital inclusion and the use of new technologies as educational tools. One of the objectives is to promote an improvement to the quality of public education in the country through its open and free portal (www.educarede.org.br), created mainly for students and teachers in primary and secondary public schools, offering exclusive content on current subjects. It also has a tool that allows students and teachers to interact, produce and disseminate content.

The portal offers exclusive content on current subjects. It also has tools that allow students to interact and produce content under the mediation of the Center for Study and Research in Education, Culture and Community Action (Cenpec), a partner NGO of the Telefônica Foundation that ensures the educational focus.

In 2010 the Portal had 508,323 page visits, a drop of about 50% from 2009. The reduction is explained by changes implemented in April 2010 to the metrics of the tool, with a stricter and more precise counting filter, as well as the start of the URL migration. At the end of 2010, the tool had 212,551 thousand registrations. The Telefônica Foundation invests R\$ 1,730,000.00 annually in all of the program's activities.

Protection Action

Developed since February 2010, through an agreement with the São Paulo state Public Ministry, the Protection Action project aims at fighting sexual violence against children and adolescents. Thirty municipalities in six regions of the state of São Paulo participated in the initiative, which intends to train and strengthen the network of bodies that make up the System of Assurance of the Rights of Children and Adolescents, developing specific action plans for each city. The project was launched in partnership with Childhood Brazil (WCF- Brazil Institute) and also promotes wide sensitization of the population through a publicity campaign.



Vivo Institute

Established in 2004, the Institute invests on educational projects and in creating work and income opportunities for youths around the country, focusing on the inclusion of people with disabilities. Starting in 2008, the initiatives were aimed at creating distribution networks and conditions for connected people to explore, propose and experiment with new processes for social network interaction.

The Vivo Institute develops projects organized into six fronts: education, local development, children and adolescents, culture, inclusion of people with disabilities

Training for social actions, incentive to donations for various causes, support to projects for entities that are supported by our employees and Volunteer Day are the pillars of our volunteer program



and volunteering. These fronts are translated into four programs – Vivo Education Network, Vivo Social Inclusion Network, Vivo Volunteer Network and Vivo Social Management Network. In its seven years, the Vivo Institute invested approximately R\$ 15 million, directly benefiting over 30 thousand people.

In 2011, with the integration between Telefónica and Vivo, the Telefónica Foundation will absorb the Vivo Institute team and its projects. Based on this process, the Foundation will begin expanding its activities to the entire country – currently most projects were concentrated in the state of São Paulo, Telefónica's area of operation.

Telefónica Volunteers

Coordinated by the Telefónica Foundation and by the Human Resources and Communications departments at Telefónica, the Volunteer Program completed its fifth year in 2010, with ever greater success among participants (this year there were about 4,500 registered employees) and members of the communities served. The program engages both employees who have volunteered and those who would like to volunteer, in five lines of operation:

Children's Incentive – a campaign that encourages employees to donate financial resources to the Municipal Fund for the Rights of Children and Adolescents; contributions are tax deductible up to 6% of total taxes

owed. The funds collected are distributed to organizations registered with the Civil Councils. The amount collected in 2010 was R\$ 151,048.57.

Campaigns – ranging from donating blood to clothes and toys. In addition to guided programs during specific times of the year, campaigns can be used to respond to emergency situations.

Training – workshops designed to provide training on subjects like Corporate Social Responsibility, Third Sector and Volunteering, in a way as to encourage the employee to develop volunteering initiatives both within and outside the company.

Project Contests – support to proposals for strengthening the organizations where the Group's volunteers operate. Employees submit proposals through an internal edict; those selected will receive financial support.

Volunteer's Day – Telefónica's Volunteer's Day, an action implemented in Brazil since 2006 that allows volunteers to donate their work day to remodeling and building, recreation, gardening, landscaping and structuring libraries and play centers. In 2010, the action took place simultaneously in 19 countries where Telefónica operates (including Brazil), on October 1. In Brazil it was held in São Paulo, Campinas, Ribeirão Preto, Rio de Janeiro and Porto Alegre. Approximately 1,500 company employees participated in the initiative. In São Paulo, the organization benefited this year was the Associação das Mulheres pela Educação (Women's Association for Education), headquartered in Osasco, in the western region of the greater São Paulo.

Neutralized Carbon Emissions



During Volunteer's Day 2010, in São Paulo, 3.5 tons of carbon dioxide (CO₂) were issued into the atmosphere. The calculation was done using specialized tools

that measure the use of electric power and fossil fuels (gasoline and diesel) for the transportation of materials and people, and the generation of organic waste, among other factors.

The date marked the start of the pilot project for carbon neutralization in São Paulo, with the contracting of Maxambiental, a company that works with offsetting greenhouse gas effects through environmental projects. For every ton of CO₂ issued into the atmosphere, four to five trees must be planted, which will transform carbon dioxide into oxygen and help restore the natural balance.

Telefónica will monitor the planting for five years, through reports issued by the company.

Sponsorships

Our array of social actions includes sponsorship of activities with the main objective of democratizing the population's access to culture, promoting social inclusion through sports and social use of Information and Communication Technologies (ICT). Among these actions in 2010, of note were:

Campus Party Brazil – Telefónica again sponsored the official event, in its third edition in Brazil, in January 25 and 31, 2010, at the Imigrantes Exposition Center, in São Paulo. About 140 thousand people were present; there were also 1 million visitors online and over 6 thousand registered participants who camped at the arena and shared experiences related to the digital world. One of the greatest attractions at the event was the internet speed provided by Telefónica: 10 Gb broadband.

In January 2011, the fourth edition of the Campus Party Brazil held debates promoted by the Telefónica Foundation, along with the Vivo Institute, about technology and its relationship with education, culture and the behavior of youths. One of the debate tables had the theme "Interactive Generation. Nothing will be as it was", to address the behavior of the young generation that was born immersed in the digital culture, discussing how this new generation is promoting a silent revolution. One of the conclusions of the debate was that parents and educators need to understand the world in which youths are inserted and need to connect to provide them with positive guidance.

Telefónica Sonidos – In 2010 we launched the "Sonidos" platform, with two initial editions. The first was the Telefónica Sonidos Festival Latin World, a series of presentations by Latin, Brazilian and international artists that took place from September 21 to 25, 2010 at the São Paulo Jockey Club. The second was Telefónica Classic Sonidos from Brazil, which was a public attraction performed at the Jundáí City Hall Square on October 17. The show included the Bachiana Orchestra, lead by Maestro João Carlos Martins, and the duo Chitãozinho & Xororó. About 25 thousand people watched the show.

Vivo Connection – Promoted since 2001, it is a national cultural project that generates opportunities, content and services for all who love or make a living from music. It has the objective of fomenting musical and creative culture in the country through collaborative networks involving artists, audience, producers, managers, communicators and other music related links; it gives visibility to starting artists, to broaden their careers, projects and partnerships. Over the decade, the project's stages have welcomed over 700 national and international artists and over 700 free presentations, with audiences surpassing 450 thousand people. In 2009 the Vivo Connection Portal was launched (www.conexaovivo.com.br), a completely collaborative site that in less than two years received over 216 thousand hits, had about 27 thousand profiles created and approximately 17 thousand songs posted.

Sports

With the objective of promoting social inclusion through sports, Telefónica supported two outstanding initiatives in 2010: The Judo in Action, an initiative by the Olympic medalist Rogério Sampaio, who offers the sport as a complement to the education of children and adolescents enrolled in public schools; and the Free Throw (Lance Livre) project, an initiative of the also Olympic medalist Marta Sobral, at the Heliópolis community in São Paulo, aimed at using basketball as a transformational teaching tool, enabling social inclusion of underprivileged children. In addition to these actions, in 2010 we sponsored athletes training at the Pinheiros Sports Club, in São Paulo, and the Athletics in Action program.

Vivo is very active in sports. One of its sponsorships supports a national treasure: the Brazilian National Soccer Team. The sponsorship concentrates its activities on the website www.euvivoaselecao.com.br, which encompasses exclusive content from the National Team, several promotions and other initiatives that seek to tighten the relationship between Brazilian soccer fans and Vivo.

Another noteworthy project is Vivo Rowing, in partnership with the Vivo Institute and the Bandeirantes Rowing Club in São Paulo.

Created in 2007, it aims at training physically disabled youths in adapted rowing for the Paralympics games. This sport is similar to traditional rowing; the difference is in the boats, adapted especially for the group of athletes. The objective is to train the group to participate in events such as the Pan-American Games of 2011 and the Paralympics Games in 2012. The group consists of 30 youths; nine of the athletes came from the AACD and the rest were chosen from among Vivo employees. These youths receive support to complete in full form, including health and dental plans.

In 2010, Vivo renewed for another four years its partnership with Franca Basketball, one of the most traditional basketball teams in Brazil. Another sponsorship that was renewed was with the Minas Tennis men's volleyball team, from Belo Horizonte, one of the main teams in this sport in Brazil today.





06

BALANCE

1	Key indicators	45
2	2010 Accomplishments	46
3	2011 Guidelines	47
	Independent Examination	48

106

Key indicators

BALANCE

See here the main perception indicators for our relationship audience and the operational data on our performance

	2010	2009	2008
STAKEHOLDER PERCEPTION			
Employee satisfaction (%)			
Telefónica SP	81	78	74
Vivo	85	82	80
Atento	72	61	70
Client satisfaction			
Telefónica SP	6.67	6.35	5.99
Reputation in society			
RepTrak Pulse	45	39	43
RepTrak Index	50	44	48
RepTrak Offer	48	37	43
RepTrak Work	49	44	49
RepTrak Integrity	48	42	46
RepTrak Leadership	52	45	51
RepTrak Innovation	53	47	52
RepTrak Finances	59	57	64
RepTrak Citizenship	51	46	49
Supports social causes	50	45	49
Environment projects	48	43	46
TELEFÓNICA OPERATIONAL INDICATORS			
Economic impact (in millions of R\$)**			
Net revenue	33,862	24,609	24,282
Investments in infrastructure (Capex)	4,930	3,625	4,395
Investment in technological innovation	2,953	1,825	2,688
Taxes	11,387	10,228	9,724
Contractual purchase volume	15,733	12,821	13,900
Clients			
Total number of client accesses (in thousands)***	75,920	67,679	60,739
Number of complaints (in thousands)*	11,324	10,339	8,584
Employees			
Total number of employees**	101,920	83,897	82,288
Hours of training per employee*	26	23	20
Suppliers***			
Number of hired suppliers	3,733	3,675	3,541
Society			
Social investment - Telefónica Foundation (millions R\$)	24,877	21,909	16,371
Direct beneficiaries of the Telefónica Foundation	609,459	393,851	295,396

* Information refers to Telefónica SP exclusively.

** For previous years, data includes 50% of Vivo Starting at 2010, it was considered as 100% part of the company.

*** numbers include all of Vivo.

2010 Accomplishments

See the results of the goals we set last year. More details on the accomplishments can be found in the chapters that address each one

TOPIC	FULFILLMENT
Corporate Responsibility and Principles of Operation	
1. Principles of Operation – Reformulate the training of the Principles of Operation and promote new initiatives for disseminating knowledge of the Principles internally.	In 2010, there were no communication and dissemination initiatives for the Principles of Operation. The online training was reformulated at the end of the year and will become effective in 2011.
2. Dialog with relationship audiences – Start an engagement program for the main relationship audiences, to direct the management of Corporate Social Responsibility in the company. Contemplate client, employee, investor, supplier and social demands in the various relationship channels with these audiences in the next edition of the Corporate Responsibility Report.	In 2010, Telefónica did not implement a formal engagement program for Corporate Responsibility with its main audiences. However, it continued the dialogs with representatives of these relationship audiences through the internet.
3. Corporate Reputation – Develop and implement a communication plan with the objective of improving client and society perception of the company's quality development. This should result in improving the RepTrak Pulse index to levels close to 2007 (before the technical interruptions between July 2008 and July 2009).	In order to improve the company's image before its consumers, contribute to improving the ISC and to show that Telefónica cares about its clients, the "Day 15" communication project was developed, with the idea of presenting something new every 15th day of the month to make our consumers' lives a little easier, thus appropriating the 15th as "Telefónica's day". Starting in October 2010, the project has led to a positive evolution (+4pp) in the RepTrak Pulse index for the year's last trimester.
Clients	
4. Client Satisfaction – Improve the customer service channels, thus reducing the number of level 2 complaints, obtaining: 1) 25% decrease in complaints to Anatel in December 2010 (in comparison to the average of the last three months of 2009); 2) public commitment to reduce the number of complaints through agreement with Procon-SP.	The year of 2010 was marked by various initiatives to improve the company's several customer service channels, but we didn't reach the expected decrease in complaints to Anatel, due to the period of heavy rains in the state of São Paulo, which caused a spike in the number of complaints. Also in 2010, Telefónica signed a public commitment to decrease the volume of complaints to Procon-SP.
5. Interactive generations Program – Conduct the second phase of the Interactive Generation Study in public urban and rural schools throughout Brazil. Publish information and tips on safe use of digital screens on the online communication channels with clients and society.	In 2010, a new nationwide research cycle was started. By December, approximately 12 thousand students between the ages of 6 and 18, from schools in all regions of Brazil had participated in the initiative.
Employees	
6. Employee satisfaction – Reach a 79% favorable response in workplace climate studies at Telefónica SP. Improve the company's position in the Best IT and Telecom Companies to Work For ranking, coordinated by the Great Place to Work Institute (in 2009, the company ranked #39).	After a year of cooperation and commitment between departments, the workplace climate study at Telefónica SP reached a record 81% favorable response. However, in 2010 the company ranked #42 in the Best IT and Telecom Companies to Work For.
7. Strengthening Leadership – Extend leadership training to employees in non-executive positions who manage teams. Reach 100% of these professionals by the end of the year.	In 2010, the Leadership Development Program (LDP) was extended to company coordinators.
Environment	
8. Environmental Management – Start implementing improvements in the main risks identified in the environmental risk map prepared in 2009. Reinforce educational and awareness efforts with the internal audience.	In 2010, Telefónica implemented a fuel tank adaptation program, which should be concluded by 2013, and hired companies responsible for the legal documentation, compliance with environmental norms, operating licenses and approvals by public authorities. Communication with the internal audience was reinforced through awareness-building initiatives on conscientious and responsible consumption.
9. Climate Changes – Reduce energy consumption by 2% per equivalent terminal in operations, expanding energy efficient actions.	Through various actions put into practice between 2009 and 2010, Telefónica surpassed this goal and reduced energy consumption by 8.79%.
Suppliers	
10. RC in the value chain – Put a work group together with managers and service providers, reinforcing the exchange of best practices among the different parts of the company. Establish communication channels with professionals at partner companies who have contact with Telefónica clients, extending to them the company's operational strategy.	Throughout the year, workshops were held with employees from contracted and technical support companies, for building minimal guidelines for human capital, from the exchange of best practices among the companies. There were also actions geared to communicating and disseminating Telefónica's strategies, through folders, newsletters and the e-book platform.
Society	
11. Pro-Menino – Increase the number of children and adolescents served by the Pro-Menino program to 10,500.	In 2010 Pro-Menino reached 9,858 children. The goal was not reached because two of the Program's organizations left and the year was marked by changes in social policy on a national scale. These changes were the result of implementing the Single Social Assistance System (SUAS), which directly influenced the organization that provide service to adolescents in social-educational measures.
12. EducaRede – Launch the Global EducaRede Portal, taking the domestic project Minha Terra to an international level. Serve an additional 15 schools through the Telefónica Foundation Classroom program.	The Global EducaRede Portal was launched and the Minha Terra project was totally internationalized. The goal of serving an additional 15 schools through the Telefónica Foundation Classroom program was also met.

3 06

2011 Guidelines

BALANCE

Our goals for 2011 are defined in four action lines, supported by the BSC (Balance Scorecard) Pillars and the organization's strategy

PILLAR	GUIDELINE
Clients	<p>In order to reach our objectives, we must focus on our client and ensure that:</p> <ul style="list-style-type: none"> • our clients identify with our brand and prefer us to our competitors; • we provide the best service at all contact points (customer service channels, network, installations, billing, etc.), looking to address customers' demands and reduce complaints made to bodies such as Anatel and Procon; • we are an innovative company, offering customer service and digital sales channels that increase our operational efficiency.
Offer	<p>In order to provide the best service, we need offers that meet the needs of each client, which means:</p> <ul style="list-style-type: none"> • ensuring a high performance in the organization's main businesses, such as pre- and post-paid mobile service, and home and business landline service; • taking care of business with high growth potential, like data and internet, seeking to advance in market leadership; • developing new business lines that will be our competitive advantage and source of revenue in the future.
Platform	<p>In order to support the growth of day to day operations, we must:</p> <ul style="list-style-type: none"> • guarantee network quality and coverage so that all of our clients can always use our services; • maintain the reliability of our systems for internal and external clients; • ensure the execution of company strategic projects that will support our growth and profitability.
Sustainability	<p>In order to build the best results, we must keep people in mind, because they will guarantee the continued existence of the organization, and we must constantly focus on sustainability, in all its dimensions. We must therefore:</p> <ul style="list-style-type: none"> • seek efficiency in our processes; • ensure that people are motivated and committed, because they are our differentiating factor.

Independent Examination

A message from Ernst & Young Terco

We have revised the Telefónica Brazil 2010 Annual Corporate Responsibility and Sustainability Report (encompassing the following entities: Telecomunicações de São Paulo S.A. and controlled companies, Vivo Participações S.A. and controlled company, Terra Networks Brazil S.A., Atento Brazil S.A., Telefónica Gestão de Serviços Compartilhados Ltda. and Telefónica Foundation). The report is presented in two parts: this printed copy and the complete online version, available at www.rcysostenibilidad.telefonica.com/rcysost2010.

The Telefónica Brazil 2010 Annual Corporate Responsibility and Sustainability Report compilation, and all of its content, is the sole responsibility of the Telefónica Group Administration, which prepared the report based on:

- Principles and indicators established in the G3 reference guide by the Global Reporting Initiative (GRI).
- Principles of norm AA1000 APS 2008 issued by AccountAbility (Institute of Social and Ethical Accountability) for the activities developed by the Telefónica Group in Brazil.

Project reach

The verifications consisted of:

- **Verification of compliance with GRI standards**

1. The adequacy of the Report's structure and content to the principles and guidelines established in the G3 guidelines.
2. The adequate tracking of information and data corresponding to the central and additional indicators and that of the Telecommunications Sector Supplement, as well as the reasonableness of the criterion used to consider such information and data as non applicable, in some instances.

- **Verification under norm AA1000AS**

The verification procedures were developed to evaluate, within the limits previously mentioned, that the Telefónica Brazil 2010 Annual Corporate Responsibility and Sustainability Report is adequate in the following principles:

1. Completeness: Implications and requirements by the parties interested in determining the content to be included.

2. Materiality or relevance: Incorporation of significant sustainability materials and aspects for the company and its stakeholders.

3. Ability to answer: Determination of objectives and answers to the expectations of the interested parts, and the adequate and timely communication of the plans destined for them.

Thus we considered the guidelines defined in standards NBC TO 3000 (Assurance Engagements Other Than Audits or Review), issued by the CF (Federal Accounting Council) and ISAE 3000 (Assurance Engagements Other Than Audits or Review of Historical Financial Information), issued by the IFAC (International Federal of Accountants), applicable to carry out verifications of non-financial reports.

The verification procedures included mainly conducting interviews with corporate executives, review of relevant Group information and press articles, review of the procedures to compile information and proof of data tracking in the information reported for each indicator.

Our independence

The Ernst & Young policy on independence apply to the company and its partners and professionals. This policy prohibits any financial stake in our clients that may compromise our independence. Each year the partners and professionals are called to confirm compliance to the company's policy. The norms of independence of Ernst & Young exceed, on some points, the requirements of the IFAC (International Federation of Accountants).

Our Independent Verification report contains information on the scope of the work, the level of verification, the conclusions and our independence. This report will be available at www.rcysostenibilidad.telefonica.com/rcysost2010.

São Paulo, August 5, 2011

**Ernst & Young Terco
Auditores Independentes S.S.**

